BEFORE THE PUBLIC SERVICE COMMISSION OF NEBRASKA

IN THE MATTER OF THE JOINT APPLICATION OF KINDER MORGAN, INC., KM RETAIL UTILITIES HOLDCO LLC, SOURCE GAS DISTRIBUTION LLC, SOURCE GAS HOLDINGS LLC AND SOURCE GAS LLC FOR APPROVAL OF (1) THE PROPOSED TRANSFER OF KINDER MORGAN, INC.'S NEBRASKA CERTIFICATE OF CONVENIENCE AND UTILITY ASSETS TO SOURCE GAS DISTRIBUTION LLC; AND (2) THE PROPOSED CHANGE OF CONTROL OF SOURCE GAS DISTRIBUTION LLC FROM KINDER MORGAN, INC. TO SOURCE GAS LLC.	)	**Application No. _____**

I. INTRODUCTION

Kinder Morgan, Inc. ("Kinder Morgan"), KM Retail Utilities Holdco LLC ("KM Retail Holdco")[1](collectively referred to throughout as "Kinder Morgan"), Source Gas Distribution LLC f/k/a KM Retail LLC ("Source Gas Distribution") (together with Kinder Morgan, the "KM Companies"), Source Gas Holdings LLC ("Source Gas Holdings"), and Source Gas LLC ("Source Gas") (collectively the "Source Gas Companies" and together with the KM Companies, the "Applicants") hereby make this Application to the Nebraska Public Service Commission (the "Commission") pursuant to NEB. REV. STAT. §§ 66-1821 and 1828 and other applicable provisions of the State Natural Gas Regulation Act (the "Act"), for approval of (1) the proposed transfer of Kinder Morgan's Nebraska Certificate of Convenience ("CPC") and Nebraska retail

[1] KM Retail Holdco was created in regard to a proposed management led buy out of Kinder Morgan, Inc. as set forth in detail in a separate and independent Application before this Commission for the approval of the Kinder Morgan Asset Transfer described therein. As contemplated by the Asset Transfer, KM Retail Holdco will be the owner of all membership interests in Source Gas Distribution if the Asset Transfer is approved and consummated prior to the approval and consummation of the proposed Transaction described in this Application. If the timing of the the transactions and approvals is such, KM Retail Holdco would then transfer its membership interests in Source Gas Distribution to Source Gas, and is for that reason named as an Applicant here.

utility assets to Source Gas Distribution, and (2) the proposed change of control of Source Gas Distribution from Kinder Morgan to Source Gas (hereinafter the "Transaction").

The Act vests the Commission with authority to approve the assignment of CPCs in Nebraska and any and all transactions involving the change of control of jurisdictional utilities in Nebraska. Pursuant to NEB.REV.STAT. § 66-1821, no CPC shall be transferred or assigned unless the assignment has been approved by the Commission as being consistent with the public interest. In addition, NEB.REV.STAT. § 66-1828 authorizes the Commission to approve any and all transactions involving the change of control of jurisdictional utilities in Nebraska, with the sole exception being those transactions that will adversely affect the utility's ability to serve its ratepayers in Nebraska. As set forth herein, the Transaction is consistent with the public interest and does not adversely affect Kinder Morgan's ability to serve its ratepayers, and therefore, the Applicants respectfully request that the Commission issue an order authorizing the Transaction.

II. JURISDICTION

The Commission's jurisdiction to grant the relief requested herein is derived from the Act, NEB. REV. STAT. § 66-1801, *et seq*, and more specifically NEB. REV. STAT. §§ 66-1821 and 1828, which requires the Commission's approval for transactions such as the one described in this Joint Application.

III. OVERVIEW OF THE TRANSACTION

Kinder Morgan has decided to sell its retail gas distribution and intrastate transmission activities in the United States, which represent less than 7% of its total earnings in 2005. Kinder Morgan is also becoming a private enterprise wholly owned and managed by a group of investors led by Richard Kinder, its Chairman and CEO. However, that transaction is the subject of a separate application being filed contemporaneously by Kinder Morgan with the

Commission.[2] Kinder Morgan has entered into a Purchase and Sale Agreement, pursuant to which agreement Kinder Morgan will sell, among other things, its retail utility business to certain of the Source Gas Companies, as more particularly described below.

The sale and transfer of the Kinder Morgan retail utility business will be effectuated through a series of transactions culminating in the ultimate ownership by Source Gas Holdings through its wholly-owned subsidiary, Source Gas and another affiliate not subject to this Commission's jurisdiction. More specifically, heretofore, Kinder Morgan's existing retail local distribution facilities and operations have been performed as part of a business unit of Kinder Morgan Inc. ("KM Retail"), and not as a separate stand-alone entity. In order that such facilities and operations may be sold, the transaction contemplates that Kinder Morgan will transfer these retail facilities and operations into a separate legal entity known as Source Gas Distribution, LLC. Kinder Morgan will then sell 100% of its ownership interest in this new Kinder Morgan entity to Source Gas, as well as Kinder Morgan's ownership interest in other retail entities not subject to this Commission's jurisdiction.

The natural gas utilities, properties and other pertinent assets, including CPCs, that are the subject of this Joint Application, are described in the Purchase and Sale Agreement attached as Exhibit 1.

In support of their Verified Joint Application, the Applicants provide the following information.

---

2 Verified Application of Kinder Morgan, Inc.

IV. THE APPLICANTS

A. Applicant Names and Addresses

For the KM Companies:
Kinder Morgan, Inc.
500 Dallas Street, Suite 1000
Houston, Texas 77002

Source Gas Distribution
f/k/a KM Retail LLC
370 Van Gordon Street
Lakewood, Colorado 80228

Source Gas Companies:
Source Gas Holdings LLC
c/o GE Energy Financial Services, Inc.
120 Long Ridge Road
Stamford, CT 06927

Source Gas LLC
c/o GE Energy Financial Services, Inc.
120 Long Ridge Road
Stamford, CT 06927

B. Names and Addresses of Persons Authorized to Receive Notices and Communications on behalf of Applicants.

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C. Description of the Applicants

1. Kinder Morgan, Inc.

Kinder Morgan, Inc. was founded in 1936 as Kansas Pipeline and Gas Company. Kansas Pipeline and Gas Company's operations were premised on the idea that a market for natural gas service could be developed in the small communities and rural areas of Kansas and Nebraska. Kansas Pipeline and Gas Company evolved into KN Energy, Inc., which was headquartered in Hastings, Nebraska and listed on the New York Stock Exchange in 1970. In 1982, the company headquarters were relocated to Lakewood, Colorado.

During the 1990s, the company grew from a $300 million rural utility into one of the nation's largest integrated natural gas pipeline companies through a series of mergers and acquisitions. In 1998, KN Energy acquired the 10,000 mile Natural Gas Pipeline Company of America, which serves the Chicago market and several Midwestern states

In the 1990s, the natural gas industry moved from a fully regulated environment to a much more competitive one. Signifying its commitment to rural and small to medium-size communities, KN Energy voluntarily unbundled many of its retail natural gas services. A pioneer in the national unbundling effort, KN Energy launched its Choice Gas Program in

Nebraska in 1997. Continuing today, many of Kinder Morgan's customers are able to choose their own supplier based upon individual needs and circumstances.

In October of 1999, Kinder Morgan, Inc. merged with KN Energy. Presently, with its headquarters in Houston, Texas, Kinder Morgan is one of the largest midstream energy companies in America, operating more than 40,000 miles of natural gas and petroleum transportation pipelines, with 150 terminals and 1.1 million natural gas distribution customers. Kinder Morgan currently provides regulated retail natural gas service to approximately 242,000 customers in Colorado, Nebraska, and Wyoming, via approximately 8,900 miles of distribution pipelines.

Kinder Morgan presently provides retail natural gas distribution service to approximately 94,000 customers in about 180 Nebraska municipalities, located primarily in the western two-thirds of the state. A map of Kinder Morgan's Nebraska retail distribution system is attached as Exhibit 2. Kinder Morgan's retail distribution operations in Nebraska employ approximately 230 persons.

2. Source Gas Distribution LLC f/k/a KM Retail, LLC

Presently, Kinder Morgan owns and operates its Nebraska jurisdictional retail natural gas distribution assets within its Kinder Morgan Retail Division. Kinder Morgan formed KM Retail, LLC in order to transfer all of is retail natural gas distribution assets to KM Retail, LLC, a separate and distinct entity from Kinder Morgan. KM Retail, LLC recently changed its name to Source Gas Distribution for purposes of this Transaction. Kinder Morgan is currently the sole member of Source Gas Distribution.

3. Source Gas Holdings LLC

Source Gas Holdings, a Delaware limited liability company, is owned by Aircraft Services Corp., a subsidiary of the General Electric Company ("GE") and its affiliate GE Energy Financial Services ("GEEFS"). It was formed for the purpose of owning 100% of the ownership interest in Source Gas, which will in turn hold 100% of the equity interest in Source Gas Distribution upon completion of the proposed Transaction.

GEEFS is a wholly-owned entity subsidiary of GE. GE operates many businesses including power, aviation, entertainment, medical services and also consumer and commercial financing. The financing business at GE accounts for almost half of the net income of the company. GEEFS has been in existence in one form or another for nearly 30 years and is the entity through which GE makes all its financial investments in the energy industry. Currently, GEEFS has an asset base in excess of $13 billion dollars in a wide variety of energy businesses and assets. GEEFS owns electric power plants, electric transmission systems, natural gas pipelines, natural gas gathering and processing systems, oil and gas reserves, and water and wastewater systems.

Prior to the closing of the Transaction, up to fifty percent of the ownership interest in Source Gas Holdings may be sold to an unrelated third party that shares GEEFS' fundamental management and investment philosophies.

4. Source Gas LLC

Source Gas LLC, a Delaware limited liability company, is a wholly-owned subsidiary of Source Gas Holdings LLC, formed to hold the equity interests in Source Gas Distribution following completion of the Transaction.

D. Approvals from Other Regulatory Bodies in Connection with the Transaction.

Other than the instant filing, it is the Applicants' understanding that additional regulatory filings required in connection with the Transaction, include the applications for approval of the Transaction to the Colorado Public Utilities Commission and the Wyoming Public Service Commission. The proposed Transaction described herein does not require approval from the Federal Energy Regulatory Commission.

V. DESCRIPTION OF THE TRANSACTION

A. Purchase and Sale Agreement

Attached as Exhibit 1 is a complete copy of the Purchase and Sale Agreement that is the subject of this proceeding (the "Agreement"). In the Agreement, Kinder Morgan proposes to sell all of its retail regulated natural gas properties, as well as its ownership interest in other utility subsidiaries not subject to this Commission's jurisdiction, for a price of Seven Hundred Ten Million Dollars ($710,000,000).[3] For ease of understanding, the description of the Transaction is separated for purposes of this Application into two phases.

In phase one, Kinder Morgan will transfer all of its Certificates of Public Convenience and retail natural gas assets and properties issued by or located in the States of Nebraska, Colorado, and Wyoming to Source Gas Distribution.

The second phase of the Transaction will immediately follow the completion of phase one. In the second phase, Kinder Morgan will sell and Source Gas will purchase 100% of the outstanding ownership interests in Source Gas Distribution. In addition, Kinder Morgan will transfer its ownership interests in other subsidiaries not subject to this Commission's jurisdiction.

B. Financing

Upon closing of the Transaction, Source Gas Distribution (which will be wholly owned by Source Gas, as shown in Exhibit 3) will not issue any debt securities in conjunction with the proposed Transaction. Source Gas intends that it will be financed by a combination of debt and equity financing in relative amounts that are consistent with other peer group direct parents of natural gas utility companies and that it will achieve an investment grade credit rating. As noted above, Source Gas will be wholly owned by Source Gas Holdings, which itself will be owned by an indirect subsidiary of The General Electric Company, as well as one or more third parties, provided that such third parties will in no event hold more than a 50% ownership interest in Source Gas Holdings.[4] Source Gas Holdings will likewise be financed by a combination of debt and equity financing.

C. Commission Approvals

1. Approvals Sought by Applicants

As a result of the two phase Transaction described above, there will be a transfer of Kinder Morgan's Nebraska CPC to Source Gas Distribution and a change of control of Source Gas Distribution, including the local distribution business in Nebraska, from Kinder Morgan to Source Gas. In connection with this Transaction and as a condition to closing, the Applicants seek the Commission's approval of the following pursuant to NEB.REV.STAT. §§ 66-1821 and 1828:

(a) The transfer of local distribution assets in Nebraska of the Kinder Morgan Retail Division of Kinder Morgan to Source Gas Distribution, including the assignment

[3] The Agreement provides that the purchase price is subject to adjustment for various reasons.
[4] Once the identity of such equity partner(s) is known and may be publicly disclosed, the Applicants will supplement their Joint Application so as to communicate relevant information about such partner(s) as may be relevant to the Commission's consideration of the proposed Transaction and associated transfers of assets and ownership interests.

of Kinder Morgan's Nebraska Certificate of Public Convenience issued by the Commission; and

(b) The approval of the change of control of Source Gas Distribution from Kinder Morgan to Source.

2. Applicant's Proposed Schedule for Proceedings

Applicants seek and request the approval of this Application by December 31, 2006. To facilitate this requested schedule, Applicants propose the following timeframes for the processing of this Application:

Initial discovery (formal or informal) by Public Advocate	September 29, 2006 – October 20, 2006
Informal Conference with Public Advocate to discuss and identify issues	October 23, 2006
Close of Intervention Deadlines and Prehearing Conference to set procedural schedule for litigation of remaining issues, if any	Early November, 2006

VI. THE TRANSACTION IS CONSISTENT WITH THE PUBLIC INTEREST AND WILL NOT ADVERSELY AFFECT KINDER MORGAN'S ABILITY TO SERVE ITS RATEPAYERS.

A. Applicable Legal Standards

1. Transfer of Certificate of Public Convenience

Section 66-1821 of the State Natural Gas Regulation Act, NEB.REV.STAT., § 66-1801 *et seq*, requires the Commission to approve the assignment, transfer, or lease of any franchise or certificate of convenience granted to a jurisdictional utility such as Kinder Morgan. Section 66-1821 provides as follows:

The Source Gas Companies as Applicants note that any such partner will share the long-term investment philosophy as discussed in more detail below.

> No franchise or certificate of convenience granted to a jurisdictional utility shall be assigned, transferred, or leased unless the assignment, transfer, or lease has been approved by the commission as being consistent with the public interest.

As noted in Section IV of this Application, the first step in the transaction contemplated by the Agreement involves the transfer of assets of the Kinder Morgan Retail Division of Kinder Morgan, including all assets of its jurisdictional local natural gas distribution business in Nebraska, from Kinder Morgan to Source Gas Distribution. The Applicants seek approval of the transfer of any and all Certificates of Public Convenience granted to Kinder Morgan by the Commission. Pursuant to Section 66-1821 of the Act, such transfer is consistent with the public interest and should be approved by the Commission.

2. Change of Control

Section 66-1828 of the State Natural Gas Regulation Act, NEB.REV.STAT., § 66-1801 *et seq*, requires Commission approval of a reorganization or change of control of a jurisdictional utility. Section 66-1828 provides as follows:

> (1) No reorganization or change of control of a jurisdictional utility shall take place without prior approval by the commission. The commission shall not approve any proposed reorganization or change of control if the commission finds, after public notice and public hearing, that the reorganization or change of control will adversely affect the utility's ability to serve its ratepayers.
>
> (2) For purposes of this section, reorganization or change of control means any transaction which, regardless of the means by which it is accomplished results in a change in the ownership of a majority of the voting capital stock of a jurisdictional utility and does not include a mortgage or pledge transaction entered into to secure a bona fide borrowing by the party granting the mortgage or making the pledge.

As explained below, the change of control described in the Agreement and summarized in this Application will not adversely affect the utility's ability to serve its ratepayers.

B. The Transaction is Consistent with the Public Interest and will not Adversely Affect Kinder Morgan's Ability to Serve its Ratepayers.

The Transaction is consistent with the public interest and will not adversely affect Kinder Morgan's ability to serve its ratepayers. In fact, the Transaction will result in benefits to the existing customers of Kinder Morgan in a variety of ways. While Kinder Morgan has built and operated safe and reliable natural gas systems from which it has provided reasonably priced service for several decades, today, the retail natural gas distribution segment of Kinder Morgan's operations constitutes less than 7 percent of its total earnings.

The Source Gas Companies, on the other hand, through the substantial investment by their affiliate, GEEFS, have determined that the local distribution utility business represents a tremendous investment opportunity, and in that regard, intend to use the acquisitions that are the subject of this application as the platform upon which to grow. In short, Source Gas Distribution is intended to remain a strong player in the Nebraska local distribution business for the long term, thus eliminating any concern or speculation as to the future of these systems and their customers.

The Source Gas Companies' ownership will bring a solid financial foundation and access to substantial capital resources to bear for the benefit of the local distribution systems in Nebraska and their respective customers through which Source Gas Distribution will have greater opportunities to expand and grow.

GEEFS is investing its own capital in these assets and will be looking for ways in which to grow the Source Gas Companies over time, and as a result, GEEFS is under no pressure to quickly return cash to third-party investors.[5]

[5] The contemplated equity partner(s) at the level of Source Gas Holdings LLC will share this fundamental investment philosophy.

The corporate structure of the Source Gas Companies will be such as to establish an important level of separation, and hence protection. Such separation will bring a valuable and effective measure of "ring fencing" protections to the ongoing utility operations. By way of example, each of the Source Gas (1) maintain separate books and records; (2) maintain separate systems of accounts, financial statements and bank accounts; (3) file separate tax returns; (4) establish a unique composition of board of directors; (5) have no commingling of assets or liabilities with any other person or entity; (6) pay its own liabilities out of its own funds; (7) not hold out of its credit as being available to satisfy the obligations of others; (8) not permit liens or other encumbrances of its assets in favor of other entities, other than immaterial liens or encumbrances in the ordinary course of business; and (9) any business between Source Gas and an affiliate will be conducted on an arms-length basis. These protections will help ensure that the financial strength and integrity of the utility operations will not be adversely impacted by the actions of their parent.

Source Gas Distribution will adopt all of the Nebraska tariffs setting forth the rates, charges, rules and regulations on file with and as approved by the Commission for Kinder Morgan immediately prior to closing of the proposed transaction, with the limited exception that a name change from Kinder Morgan to Source Gas Distribution will be required. Going forward, any changes made to the tariffs will be undertaken according to law and the Commission's rules and regulations. As a result, the kinds and costs of services before and after the transactions will be identical.

As indicated above, GEEFS is providing a substantial share of the capital to consummate the proposed Transaction. GEEFS has identified the energy industry generally and the natural gas distribution business specifically, as a preferred area for investment under a long-term, buy

and hold philosophy that looks for stable investments that will provide opportunities for a fair and reasonable return on the investment. In addition, GEEFS looks for investments characterized by stable, extremely well-qualified management. As GEEFS undertook to identify investment opportunities in the local distribution segment of the industry, the utility assets of Kinder Morgan and its subsidiaries stood out as meeting GEEFS's investment objectives.

Because at its core GEEFS's investment strategy is a buy and hold strategy, GEEFS has no plans to change in any material way the management of the various entities. To the contrary, the stable and well-qualified management team currently operating the retail business is one of the more significant factors that attracted GEEFS to Kinder Morgan. This high level of stability will undoubtedly benefit the customers, the employees and even the regulators.

The Applicants also note that Source Gas will obtain a separate investment grade credit rating from its affiliates, which, as mentioned earlier, will be consistent with other entities within its peer group. Because of the indirect involvement of the General Electric Company and its subsidiary, GEEFS, the Applicants would expect the transaction to have a positive impact on the bond ratings and financing costs going forward. GEEFS's long-term investment philosophy, coupled with its significant financial resources will create a favorable environment in which the management of Source Gas Distribution can access capital for growth and expansion across its service areas.

The Applicants do not anticipate any material change in the operations or management upon the closing of the proposed Transaction given that many, if not most, of the same personnel as those who currently manage the Kinder Morgan retail business will continue in their present positions. This high level of stability will undoubtedly inure to the benefit of the customers, the employees, the relevant municipalities and even the regulators.

More specifically, with the minor exception of a name change, it is intended to be business as usual when it comes to functions such as gas supply contracting and management, system operation and maintenance activities, safety and service reliability, customer service functions, billing operations, and regulatory relationships, to name a few. It is likewise intended to be business as usual for the work force in that there is no reduction in work force contemplated, nor any material change to the current employee benefits.

The proposed Transaction will also be all but seamless to the Commission, its staff and other regulatory stakeholders, with the Commission continuing to exercise the same degree of regulatory oversight over the subject utility operations as it does today. Source Gas Distribution will emphasize a cooperative, open and mutually supportive working relationship with the Commission and will meet with and update the Commission on the state of the utility on a regular basis.

In addition, Source Gas Distribution will adopt all of the tariffs setting forth the rates, charges, rules and regulations on file with and as approved by the Commission for Kinder Morgan immediately prior to closing of the proposed transactions, with the limited exception that a name change from Kinder Morgan to Source Gas Distribution will be required.

In addition, the Transaction is unrelated to Kinder Morgan's pending rate case and will not affect rates. On June 2, 2006, Kinder Morgan filed an Application for Approval of a General Rate Increase, which is pending at the Commission Docket NG-0036. The proposed Transaction described therein will occur, if approved, outside the Test Year set forth in the aforesaid Application for Approval of a General Rate Increase and therefore is not a "known and measurable change" within the meaning of the State Natural Gas Regulation Act and generally accepted ratemaking principles. Therefore, the proposed Transaction will have no effect on the

pending Application for Approval of a General Rate Increase. Subject to and without waiving any appeal or other legal rights, the Applicants herein will accept the result obtained in Kinder Morgan's pending rate proceeding. Moreover, the Applicants will not seek recovery of transaction or transition costs through rates and will not seek recovery of any acquisition premium related to the Transaction.

In conclusion, the financial strength, stability and long-term commitment of the Source Gas Companies and their GE affiliates, coupled with the commitment by the Applicants that the Transaction will not result in material changes to quality of service, safety, management, employees, employee benefits, rates and commitment to its relationship with its customers and the Commission provides ample demonstration that the Transaction is consistent with the public interest and will not adversely affect the utility's ability to serve its ratepayers.

VII. PREPARED TESTIMONY IN SUPPORT OF JOINT APPLICATION

The Prepared Direct Testimony of Daniel E. Watson on behalf of Kinder Morgan and the Prepared Direct Testimony of James F. Burgoyne on behalf of the Source Gas Companies are submitted in support of this Joint Application as Exhibits 4 and 5, respectively.

VIII. CONCLUSION

WHEREFORE, for the reasons more fully described above, Applicants respectfully request that the Commission grant this Application for approval of (1) the proposed transfer of any and all Nebraska Certificates of Public Convenience granted to Kinder Morgan, Inc., from Kinder Morgan, Inc. to Source Gas Distribution LLC, pursuant to NEB. REV. STAT. § 66-1821, and (2) the proposed change of control of Source Gas Distribution LLC from Kinder Morgan, Inc. to Source Gas LLC, pursuant to NEB. REV. STAT. § 66-1828. The Applicants further request

that the Commission grant such other and further relief as may be deemed necessary and proper in accordance with the Act.

Dated September 29, 2006.

KINDER MORGAN, INC., Applicant,
SOURCE GAS DISTRIBUTION LLC,
Applicant

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bud_becker@kindermorgan.com

Counsel for KM Companies

VERIFICATION

Daniel E. Watson, being first duly sworn on oath, deposes and states that (1) he is the Vice President of Kinder Morgan, Inc. and is authorized to make this Verification on behalf of such company; and (2) he has read the foregoing Joint Application and the information set forth therein is true to the best of his knowledge and belief.

Daniel E. Watson

Subscribed and sworn to before me this 27th day of September, 2006.

GENERAL NOTARY - State of Nebraska
STEPHEN M. BRUCKNER
My Comm. Exp. April 28, 2009

Notary Public

(SEAL)

VERIFICATION

Daniel E. Watson, being first duly sworn on oath, deposes and states that (1) he is the President of KM Retail Utilities Holdco LLC and is authorized to make this Verification on behalf of such company; and (2) he has read the foregoing Joint Application and the information set forth therein is true to the best of his knowledge and belief.

Daniel E. Watson

Subscribed and sworn to before me this 27th day of September, 2006.

GENERAL NOTARY - State of Nebraska
STEPHEN M. BRUCKNER
My Comm. Exp. April 28, 2009

Notary Public

(SEAL)

VERIFICATION

Daniel E. Watson, being first duly sworn on oath, deposes and states that (1) he is the President of Source Gas Distribution LLC and is authorized to make this Verification on behalf of such company; and (2) he has read the foregoing Joint Application and the information set forth therein is true to the best of his knowledge and belief.

Daniel E. Watson

Subscribed and sworn to before me this 27th day of September, 2006.

GENERAL NOTARY - State of Nebraska
STEPHEN M. BRUCKNER
My Comm. Exp. April 28, 2009

Notary Public

(SEAL)

VERIFICATION

State of Connecticut)
)ss
County of Fairfield)

I, Marguerite Catanzaro, Vice President of Aircraft Services Corporation, acting on behalf of and as the sole Member of Source Gas Holdings LLC, as well as on behalf of Source Gas LLC, being duly sworn, state that I have read the foregoing Verified Joint Application, and that the facts contained therein are true and correct to the best of my knowledge, information and belief.

Marguerite Catanzaro

The foregoing instrument was acknowledged before me this 29th day of September, 2006, by Marguerite Catanzaro.

Witness my hand and official seal.

Notary Public
120 Long Ridge Road
Stamford, CT 06927

(SEAL)

My commission expires:

BRIGIDA SEDITA
NOTARY PUBLIC
MY COMMISSION EXPIRES JUNE 30, 2009

LIST OF EXHIBITS

Exhibit 1 Purchase and Sale Agreement, and Assignment

Exhibit 2 Map of Kinder Morgan, Inc. Retail Operations in Nebraska

Exhibit 3 Post-Transaction Organizational Chart – Source Gas Companies

Exhibit 4 Prepared Direct Testimony of Daniel E. Watson

Exhibit 5 Prepared Direct Testimony of James F. Burgoyne

EXECUTION COPY

PURCHASE AND SALE AGREEMENT

between

KINDER MORGAN, INC.,

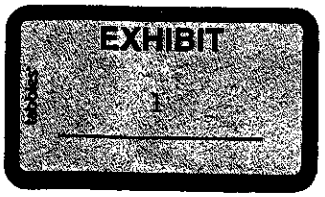
a Kansas corporation

and

AIRCRAFT SERVICES CORPORATION,

a Nevada corporation

Dated as of August 14, 2006



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PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT is entered into on the 14th day of August, 2006, among Kinder Morgan, Inc., a Kansas corporation ("Seller"), and Aircraft Services Corporation, a Nevada corporation ("Buyer").

Recitals:

WHEREAS, subject to the terms and conditions set forth herein, Seller desires to sell, assign and transfer to Buyer, and Buyer desires to purchase and take assignment and delivery from Seller of:

(a) all of the issued and outstanding limited liability company membership interest (the "NewCo Interests") of KM Retail LLC, a Delaware limited liability Company ("NewCo");

(b) all of the issued and outstanding shares of capital stock (the "Retail Services Shares") of Kinder Morgan Retail Energy Services Company, a Colorado corporation ("Retail Services");

(c) all of the issued and outstanding shares of capital stock (the "KNEI Shares") of K N Energy International, Inc., a Delaware corporation ("KNEI");

(d) all of the issued and outstanding limited liability company membership interest (the "Wattenberg Interests") of KN Wattenberg Transmission Limited Liability Company, a Colorado limited liability company ("Wattenberg");

(e) all of the issued and outstanding shares of capital stock (the "Gas Supply Shares") of K N Gas Supply Services, Inc., a Colorado corporation ("Gas Supply");

(f) all of the issued and outstanding shares of capital stock (the "Rocky Shares") of Rocky Mountain Natural Gas Company, a Colorado corporation ("Rocky");

(g) 125 Series B shares and 18 Series BB shares of capital stock (the "AOI Shares") of Administración y Operación de Infraestructura, S.A. de C.V., a company incorporated under the laws of the Republic of Mexico ("AOI"); and

(h) 116,211 Series B shares and 376,224 Series BB shares of capital stock (collectively, the "GNN Shares") of Gas Natural del Noroeste, S.A. de C.V., a company incorporated under the laws of the Republic of Mexico ("GNN"); and

WHEREAS, KNEI owns (a) 288,404 Series B shares and 973,062 Series BB shares of capital stock of GNN which, together with the GNN Shares, represent all of the issued and outstanding shares of capital stock of GNN and (b) 375 Series B shares and 2,554 Series BB shares of capital stock of AOI which, together with the AOI Shares, represent all of the issued and outstanding shares of capital stock of AOI.

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements contained herein, the Parties hereto agree as follows:

ARTICLE 1
DEFINITIONS

1.1 Defined Terms. As used in this Agreement, each of the following terms shall have the meaning given to it below:

"Affiliate" means, with respect to any Person, any other Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. For the purposes of this definition, "control" means, when used with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by Contract, or otherwise, and the terms "controlling" and "controlled" have correlative meanings.

"Agreement" means this Purchase and Sale Agreement, as the same may be amended or supplemented from time to time.

"AOI" has the meaning assigned to such term in the Recitals.

"AOI Shares" has the meaning assigned to such term in the Recitals.

"Balance Sheet" has the meaning assigned to such term in Section 4.8(a).

"Balance Sheet Date" means June 30, 2006.

"Base Purchase Price" means a purchase price of Seven Hundred Ten Million Dollars ($710,000,000).

"Benefit Plan" means with respect to Seller, any Retail Company and ERISA Affiliate, each stock purchase, stock option, stock bonus, stock ownership, phantom stock or other stock or equity plan, pension, profit sharing, bonus, deferred compensation, incentive compensation, severance or termination pay, hospitalization or other medical or dental, life or other insurance, supplemental unemployment benefits plan or agreement or policy or other arrangement providing employment-related compensation, fringe benefits or other benefits, including any other "employee benefit plans," as defined in Section 3(3) of ERISA; and each employment, consulting, retention, termination or severance agreement; and each other employee benefit plan, fund, program, agreement or arrangement, whether oral or written, formal or informal and whether or not subject to ERISA, in each case, that is sponsored, maintained or contributed to or required to be contributed to by Seller, any Retail Company or any ERISA Affiliate.

"Business" means the local natural gas distribution business of Seller and its Affiliates in Colorado, Wyoming and Nebraska and Hermosillo, Mexico (but not including the Excluded Assets or the items listed on Schedule 4.17).

"Business Day" means any day other than a Saturday, Sunday or legal holiday on which banks in Houston, Texas are authorized or obligated by Law to close.

"Buyer Indemnitees" means, collectively, Buyer and its Affiliates (including the Retail Companies after the Closing) and its and their officers, directors, employees, agents, and representatives.

"Capital Expenditure Plan" means the capital expenditure plan of the Business for 2006 set forth on Schedule 1.1(i).

"Closing" means the closing of the transactions contemplated by this Agreement.

"Closing Date" means the date on which the Closing occurs.

"COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended and any regulations promulgated thereunder.

"COBRA Continuation Coverage" means the requirements of Code Section 4980B(f).

"Code" means the Internal Revenue Code of 1986, as amended, and any regulations or other agency releases promulgated thereunder.

"COFL" has the meaning assigned to such term in Section 4.11(k).

"Company Benefit Plan" means any Benefit Plan established or maintained by or contributed to by the Retail Companies or by Seller or any ERISA Affiliate with respect to any employees or former employees of Seller (with respect to the Business) or the Retail Companies as of the date of this Agreement.

"Company Guarantees" means any and all obligations relating to the guarantees, letters of credit, bonds and other sureties and credit assurances of Seller or any Seller Affiliates (other than the Retail Companies) for the benefit of the Business or any Retail Company listed on Schedule 1.1(a) or incurred in the ordinary course of business consistent with past practice after the date hereof.

"Confidentiality Agreement" means that certain confidentiality agreement dated March 30, 2006, between Buyer's Affiliate and Seller.

"Contract" means any written contract, agreement, indenture, note, bond, mortgage, loan, instrument, lease, license, commitment or other arrangement, understanding, undertaking, commitment or obligation.

"Credit Requirements" has the meaning assigned to such term in Section 7.8.

"CSLL" has the meaning assigned to such term in Section 4.11(k).

"CWA" means the Communications Workers of America, AFL-CIO.

"CWA CBA" means the collective bargaining agreement made by and between Seller and the CWA, dated May 1, 2005, covering employees who provide services to the Retail Companies as of the date of this Agreement.

"Deductible Amount" means an amount equal to 1.75% of the Base Purchase Price.

"Direct Claim" means any claim by an Indemnitee on account of a Loss which does not result from a Third Party Claim.

"Disclosing Party" has the meaning assigned to such term in Section 7.5.

"Disclosure Schedule" means the disclosure letter and related schedules of even date herewith of Seller or Buyer, as the same may be amended or supplemented in accordance with Section 7.5.

"Effective Time" means 12:01 AM on the Closing Date.

"Effective Time Balance Sheet" has the meaning assigned to such term in Section 2.4(b)(i).

"Employee Records" means records related to employees performing services for Retail Companies as of the date of this Agreement who are eligible to become employees of Buyer or its Affiliates (including the Retail Companies) but only to the extent such records pertain to (i) skill and development training and biographies, (ii) seniority histories, (iii) salary and Benefit Plan information, (iv) Occupational Safety and Health Administration reports, or (v) active medical restriction forms.

"Encumbrances" means liens, charges, pledges, options, mortgages, deeds of trust, security interests, claims, restrictions (whether on voting, sale, transfer, disposition, or otherwise), easements, and other encumbrances of every type and description, whether imposed by Law, agreement, understanding, or otherwise.

"Environmental Laws" means any and all applicable Laws in effect as of the date of this Agreement pertaining to protection of the environment, natural resources or human health and safety as it relates to environmental protection or exposure to hazardous materials, substances or wastes, including, without limitation, the Clean Air Act, as amended, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Federal Water Pollution Control Act, as amended, the Resource Conservation and Recovery Act of 1976, as amended, the Safe Drinking Water Act, as amended, the Toxic Substances Control Act, as amended, the Superfund Amendments and Reauthorization Act of 1986, as amended, the Occupational Safety and Health Act, as amended, and the Hazardous Materials Transportation Act, as amended.

"Equity Interests" has the meaning assigned to such term in Section 2.1.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any regulations or other agency releases promulgated thereunder.

"ERISA Affiliate" means a trade or business, whether or not incorporated, which is or during the last six years preceding the date of this Agreement has been under common control, or treated as a single employer, with Seller or any Retail Company, under Code Section 414(b), (c), (m) or (o).

"Estimated Purchase Price" means the sum of (i) the Base Purchase Price and (ii) the Estimated Working Capital Payment.

"Estimated Working Capital Payment" means an amount equal to Seller's estimate of the Working Capital as of the Effective Time prepared in accordance with Section 2.4(a).

"Excluded Assets" has the meaning assigned to such term in Section 7.7(a).

"Final Working Capital" means the actual Working Capital at the Effective Time as determined pursuant to the procedures set forth in Section 2.4.

"Final Working Capital Payment" means the difference between (i) the Final Working Capital and (ii) the Estimated Working Capital Payment.

"Financial Statements" has the meaning assigned to such term in Section 4.8(a).

"Financing" has the meaning assigned to such term in Section 7.12.

"GAAP" means United States generally accepted accounting principles with such exceptions to such United States generally accepted accounting principles as may be expressly noted or otherwise expressly referred to on any individual financial statement or schedule.

"Gas Supply" has the meaning assigned to such term in the Recitals.

"Gas Supply Shares" has the meaning assigned to such term in the Recitals.

"GECC" means General Electric Capital Corporation, a Delaware corporation.

"GNN" has the meaning assigned to such term in the Recitals.

"GNN Shares" has the meaning assigned to such term in the Recitals.

"Governmental Approvals" means all consents and approvals of Governmental Entities necessary so that the consummation of the transactions contemplated hereby will be in compliance with applicable Laws.

"Governmental Entity" means any court or tribunal in any jurisdiction (domestic or foreign) or any federal, state, municipal or local government or other governmental body, political subdivision, agency, authority, department, commission, board, bureau, instrumentality, arbitrator or arbitral body (domestic or foreign).

"Hazardous Materials" has the meaning assigned to such term in Section 4.21(a).

"Hedging Agreements" has the meaning assigned to such term in Section 9.5(c).

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Indebtedness" of any Person means, without duplication, (i) the principal, accreted value, accrued and unpaid interest, prepayment and redemption premiums or penalties (if any), unpaid fees or expenses and other monetary obligations in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable; (ii) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable and other accrued current liabilities arising in the ordinary course of business consistent with past practice (other than the current liability portion of any indebtedness for borrowed money)); (iii) all obligations of such Person under leases required to be capitalized in accordance with GAAP; (iv) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction; (v) all obligations of such Person under interest rate or currency swap transactions (valued at the termination value thereof); (vi) all obligations of the type referred to in clauses (i) through (v) of any Persons for the payment of which such Person is responsible or liable, directly or indirectly, as obligor, guarantor, surety or otherwise, including guarantees of such obligations; and (vii) all obligations of the type referred to in clauses (i) through (vi) of other Persons secured by (or for which the holder of such obligations has an existing right, contingent or otherwise, to be secured by) any Encumbrance on any property or asset of such Person (whether or not such obligation is assumed by such Person).

"Indemnifying Party" means a Party required to provide indemnification under Section 12.1.

"Indemnitee" means a Party entitled to receive indemnification under Section 12.1.

"Independent Accountants" means an independent accounting firm as may be approved by Seller and Buyer.

"Intellectual Property" means, other than the Retained Marks, all: (i) patents and patent applications, registrations and disclosures and all related continuations, divisionals, continuations-in-part, reissues, reexaminations, utility models, certificates of invention and design patents, and all improvements thereon, (ii) trademarks, service marks, trade dress, logos, corporate names, trade names and internet domain names, together with the goodwill associated with any of the foregoing, and all applications and registrations therefor, (iii) copyrights and registrations and applications therefor, works of authorship and moral rights, (iv) confidential and proprietary information, including trade secrets, discoveries, concepts, ideas, research and development, financial, marketing and business data, pricing and cost information, business and marketing plans, algorithms, know-how, formulae, inventions (whether or not patentable), processes, techniques, technical data, designs, drawings, specifications, databases, and customer and supplier lists and information, in each case excluding any rights in respect of any of the items described in this clause (iv) that comprise or are protected by patents and (v) Software.

"Interim Services Agreement" has the meaning assigned to such term in Section 3.2(c).

"IRS" means the Internal Revenue Service, and any successor thereto.

"Knowledge" means, with respect to Seller, the actual knowledge of the Persons listed on Schedule 1.1(c), and with respect to Buyer, the actual knowledge of the Persons listed on Schedule 1.1(d).

"KNEI" has the meaning assigned to such term in the Recitals.

"KNEI Shares" has the meaning assigned to such term in the Recitals.

"Law" means any statute, law, rule, regulation, Order or ordinance of, or any other legal requirement of any Governmental Entity to which a specified Person or property is subject.

"Leased Properties" has the meaning assigned to such term in Section 4.14.

"Leased Property" has the meaning assigned to such term in Section 4.14.

"Liability" means any debt, loss, damage, adverse claim, fines, penalties, liability or obligation (whether direct or indirect, known or unknown, asserted or unasserted, absolute or contingent, accrued or unaccrued, matured or unmatured, determined or determinable, liquidated or unliquidated, or due or to become due, and whether in contract, tort, strict liability or otherwise), and including all reasonable costs and expenses relating thereto (including all fees, disbursements and expenses of legal counsel, experts, engineers and consultants and costs of investigation).

"Long-Term Disability" has the meaning assigned to such term under Seller's long-term disability plans or arrangements.

"Losses" means any and all claims, Liabilities, deficiencies, demands, judgments, causes of action, litigation, actions, lawsuits, administrative proceedings, administrative investigations, damages, assessments, awards, costs, expenses and interest.

"Material Adverse Effect" means, with respect to any Person, any adverse change, circumstance, effect or condition in or relating to the assets, financial condition, results of operations, or business of such Person that (i) is material to such Person (or in the case of a Retail Company is material to all of the Retail Companies taken as a whole) or that impedes the ability of such Person to consummate the transactions contemplated hereby, other than any change or changes in general economic or industry conditions (including any change in the prices of oil, natural gas, natural gas liquids, or other hydrocarbon products), so long as such Person is not disproportionately affected thereby, or (ii) involves or relates to acts, omissions or other practices for which a Governmental Entity would have a reasonable basis for (A) criminal prosecution of such Person or its management under applicable Law relating to the conduct of such Person's business or (B) civil enforcement under applicable Law relating to the conduct of such Person's business that would reasonably be expected to subject such Person to material damages.

"Material Contract" has the meaning assigned to such term in Section 4.18(l).

"Material Permit" has the meaning assigned to such term in Section 4.7.

"MGP" has the meaning assigned to such term in Section 4.21(b).

"NewCo" has the meaning assigned to such term in the Recitals.

"NewCo Contribution" means the Seller's contribution of assets, including the assets listed or described on Schedule 1.1(h), relating to its local natural gas distribution businesses in Colorado, Nebraska and Wyoming to NewCo prior to Closing.

"NewCo Interests" has the meaning assigned to such term in the Recitals.

"Non-Union Employees" means employees of Seller, any Retail Company or any ERISA Affiliate providing services to Retail Companies or the Business as listed on Schedule 7.3(a).

"Notice" has the meaning assigned to such term in Section 13.1.

"Order" means any order, injunction, judgment, doctrine, decree, ruling, writ, assessment or arbitration award of a Governmental Entity.

"Owned Property" has the meaning assigned to such term in Section 4.14.

"Owned Properties" has the meaning assigned to such term in Section 4.14.

"Parties" means the Seller and Buyer, collectively.

"Party" means the Seller or Buyer, individually, as the case may be.

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Permits" means licenses, permits, franchises, consents, approvals, variances, exemptions, and other authorizations of or from Governmental Entities.

"Permitted Encumbrances" means (i) liens for Taxes, impositions, assessments, fees, rents or other governmental charges levied or assessed or imposed not yet delinquent or being contested in good faith by appropriate proceedings, provided that reserves reasonably satisfactory to Buyer have been established with respect to such contest, (ii) statutory liens (including materialmen's, warehousemen's, mechanics', repairmen's, landlord's, and other similar liens) arising in the ordinary course of business consistent with past practice securing payments not yet delinquent or being contested in good faith by appropriate proceedings, (iii) Encumbrances of public record described by category on Schedule 1.1(f), (iv) the rights of lessors and lessees under leases, and the rights of third parties under any agreement, executed in the ordinary course of business consistent with past practice, (v) the rights of licensors and licensees under licenses executed in the ordinary course of business consistent with past practice, (vi) utility easements, restrictive covenants and defects, imperfections or irregularities of title or liens, which do not materially and adversely affect the ability of Buyer, directly or indirectly, to conduct the Business as presently conducted, (vii) purchase money liens and liens securing rental payments under capital lease arrangements, (viii) preferential purchase rights and other similar

arrangements listed on Schedule 1.1(f) with respect to which consents or waivers are obtained for this transaction or as to which the time for asserting such rights has expired at the Closing Date without an exercise of such rights, (ix) Encumbrances entered into in the ordinary course of business consistent with past practice which do not secure the payment of indebtedness for borrowed money and which do not materially and adversely affect the ability of Buyer, directly or indirectly, to conduct the Business, (x) any other matters which may be disclosed by a current and accurate survey of the assets and properties of the Retail Companies and which do not materially and adversely affect the ability of Buyer, directly or indirectly, to conduct the Business as presently conducted, (xi) any conditions relating to the real property or real property rights owned or leased by the Retail Companies, which are disclosed on any title commitments, reports or opinions made available to Buyer prior to the date hereof, and (xii) Encumbrances created by Buyer, or its successors and assigns.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, enterprise, unincorporated organization, or Governmental Entity.

"Post-Closing Period" has the meaning assigned to such term in Section 11.4.

"Pre-Closing Period" has the meaning assigned to such term in Section 12.1(a).

"Proceedings" means all proceedings, actions, claims, suits, investigations, and inquiries by or before any Governmental Entity.

"Purchase Price" means the aggregate purchase price consisting of the sum of (i) the Base Purchase Price, plus or minus (ii) the Estimated Working Capital Payment plus or minus the Final Working Capital Payment.

"Reasonable Efforts" means the efforts, time and costs a prudent Person desirous of achieving a result would use, expend or incur in similar circumstances to achieve such results as expeditiously as reasonably practicable, provided that such Person is not required to (i) expend funds or assume liabilities beyond those that are reasonable in nature and amount in the context of the transactions contemplated hereunder, (ii) divest any of its assets, including its businesses, divisions or properties or (iii) agree to restrictions on its businesses, operations or conduct other than those that have been expressly agreed to in this Agreement.

"Receiving Party" has the meaning assigned to such term in Section 7.5.

"Related Agreements" means the Interim Services Agreement.

"Restricted Business" has the meaning assigned to such term in Section 7.11.

"Retail Assets" has the meaning assigned to such term in Section 4.17.

"Retail Companies" means NewCo (assuming completion of the NewCo Contribution), Retail Services, KNEI, Wattenberg, Gas Supply, Rocky, AOI, GNN and the Retail Subsidiaries.

"Retail Company" means any of the Retail Companies, as the case may be.

"Retail Services" has the meaning assigned to such term in the Recitals.

"Retail Services Shares" has the meaning assigned to such term in the Recitals.

"Retail Subsidiaries" means the direct and indirect Subsidiaries of the Retail Companies that are listed as such in Schedule 1.1(b).

"Retained Marks" means the names, trademarks, service marks and trade names referred to in Schedule 1.1(g) hereto.

"Rocky" has the meaning assigned to such term in the Recitals.

"Rocky Shares" has the meaning assigned to such term in the Recitals.

"Section 338(h)(10) Election" has the meaning assigned to such term in Section 11.2(a).

"Seller Affiliate" means any Affiliate of Seller.

"Seller Group" means the affiliated group of corporations within the meaning of Code Section 1504(a) for federal income Tax purposes of which Seller is the common parent.

"Seller Indemnitees" means, collectively, the Seller, Seller Affiliates and its and their officers, directors, employees, agents, and representatives.

"Seller Savings Plan" means the Kinder Morgan, Inc. Savings Plan.

"Software" means any and all (i) computer programs, including any and all software implementations of algorithms, models and methodologies, whether in source code or object code, (ii) databases and compilations, including any and all data and collections of data, whether machine readable or otherwise, (iii) descriptions, flow-charts and other work product used to design, plan, organize and develop any of the foregoing, screens, user interfaces, report formats, firmware, development tools, templates, menus, buttons and icons, and (iv) all documentation, including user manuals and other training documentation, related to any of the foregoing.

"Specified Rate" means the prime interest rate for corporations reported in "The Wall Street Journal" on the Closing Date.

"Statement of Working Capital Calculation" has the meaning assigned to such term in Section 2.4(b).

"Straddle Period" has the meaning assigned to such term in Section 11.1(c)(i).

"Sub-Basket" has the meaning assigned to such term in Section 12.1(c)(i).

"Subsidiary" means any corporation, partnership, limited liability company or other entity of which the securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are directly or indirectly owned by a Person.

"Supplemental Disclosure" has the meaning assigned to such term in Section 7.5.

"Tax Proceeding" has the meaning assigned to such term in Section 11.5.

"Tax Return" means any return or report, declaration, claim for refund, tax certificate report ("dictamen fiscal"), information return, or statement relating to Taxes, including any related schedules, attachments, or other supporting information, with respect to Taxes, and including any amendment thereto.

"Taxes" means (i) any federal, state, local or foreign income, gross receipts, license, payroll, parking, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, registration, asset, import, capital gains, housing fund contribution quotas, retirement fund contribution quotas, water extraction duties, waste water discharge duties, employee profit sharing, value added, alternative or add-on minimum, estimated tax or other tax duty, charge, fee or other governmental charge of any kind whatsoever, including any interest, fines, penalty, inflation adjustment or other like assessment or addition thereto, whether disputed or not, (ii) any obligations under any agreements or arrangements with respect to Taxes described in clause (i) above, and (iii) any transferee liability in respect of Taxes described in clauses (i) and (ii) above or payable by reason of assumption, transferee liability, operation of Law, Treasury Regulation Section 1.1502-6(a) (or any predecessor or successor thereof of any analogous or similar provision under Law) or otherwise.

"Taxing Authority" means, with respect to any Tax, the Governmental Entity or political subdivision thereof that imposes such Tax, and the agency (if any) charged with the collection of such Tax for such entity or subdivision, including any governmental or quasi-governmental entity or agency that imposes, or is charged with collecting, social security or similar charges or premiums.

"Third Party" means any Person other than (i) Seller or any Seller Affiliates (including the Retail Companies) or (ii) Buyer or any of its Affiliates.

"Third Party Claim" means any claim or the commencement of any claim, action or proceeding with respect to a Loss or potential Loss made or brought by a Third Party.

"Transferred Employees" means Transferred Non-Union Employees and Transferred Union Employees.

"Transferred Non-Union Employees" has the meaning set forth in Section 7.3(b).

"Transferred Union Employees" has the meaning set forth in Section 7.3(b).

"Treasury Regulations" means one or more treasury regulations promulgated under the Code by the Treasury Department of the United States.

"Union Employees" has the meaning set forth in Section 7.3(b).

"WARN Act" mean the Worker Adjustment Retraining and Notification Act of 1988, as amended and any regulations promulgated thereunder, and any similar state or local statute.

"Wattenberg" has the meaning assigned to such term in the Recitals.

"Wattenberg Interests" has the meaning assigned to such term in the Recitals.

"Working Capital" means the difference between the assets of the Retail Companies reflected as "Working Capital Assets" on the consolidated pro forma balance sheet included in Schedule 2.4(a) and the Liabilities of the Retail Companies reflected as "Working Capital Liabilities" on the consolidated pro forma balance sheet included in Schedule 2.4(a) (on a consolidated and combined basis) as of the specified date and calculated in each case using the methodologies set forth in Schedule 2.4(a).

1.2 Interpretation and Construction. In interpreting and construing this Agreement, the following principles shall be followed:

(a) the terms "herein," "hereof," "hereby," and "hereunder," or other similar terms, refer to this Agreement as a whole and not only to the particular Article, Section or other subdivision in which any such terms may be employed;

(b) unless otherwise indicated herein, references to Articles, Sections, and other subdivisions refer to the Articles, Sections, and other subdivisions of this Agreement;

(c) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP;

(d) no consideration shall be given to the captions of the articles, sections, subsections, or clauses, which are inserted for convenience in locating the provisions of this Agreement and not as an aid in its construction;

(e) the word "includes" and its syntactical variants mean "includes, but is not limited to" and corresponding syntactical variant expressions;

(f) the plural shall be deemed to include the singular, and vice versa; and

(g) each exhibit, attachment, and schedule to this Agreement is a part of this Agreement, but if there is any conflict or inconsistency between the main body of this Agreement and any exhibit, attachment, or schedule, the provisions of the main body of this Agreement shall prevail.

ARTICLE 2
THE TRANSACTION; PURCHASE PRICE

2.1 Sale and Purchase. At the Closing, and subject to the terms and conditions in this Agreement, Seller shall sell, assign, transfer, deliver, and convey to Buyer, and Buyer shall purchase and accept from Seller, the NewCo Interests, the Retail Services Shares, the KNEI Shares, the Wattenberg Interests, the Gas Supply Shares, the Rocky Shares, the AOI Shares and

the GNN Shares (collectively, the "Equity Interests"), free and clear of any and all Encumbrances.

2.2 Purchase Price. In consideration of the sale of the Equity Interests, Buyer shall pay to Seller the Purchase Price, as follows:

(a) At the Closing, Buyer shall pay to Seller the Estimated Purchase Price.

(b) Any difference between the Purchase Price (which shall be determinable upon calculation of the Final Working Capital Payment) and the Estimated Purchase Price will be paid to Seller, or refunded to Buyer, as the case may be, in accordance with the provisions of Section 2.4 below.

(c) All of the payments referenced in this Section 2.2 and Section 2.4 shall be made by confirmed wire transfer of immediately available funds to a bank account or accounts to be designated in writing by the Party receiving such payment.

2.3 Closing Payments. Not later than three (3) days prior to the Closing Date, Seller shall deliver to Buyer a written statement setting forth the Estimated Purchase Price (with Seller's calculation of the Estimated Working Capital Payment in reasonable detail, based on information then available to Seller).

2.4 Final Working Capital Payment.

(a) Calculation of the Working Capital. The Estimated Working Capital Payment and the Final Working Capital Payment will be determined in accordance with the methodologies in Schedule 2.4(a).

(b) Calculation of Final Working Capital Payment. As promptly as practicable after the Closing Date, and in any event not later than sixty (60) days after the Closing Date, Seller shall deliver to Buyer a statement (the "Statement of Working Capital Calculation") which shall set forth:

(i) pro forma consolidated balance sheet of the Retail Companies as of the Effective Time (the "Effective Time Balance Sheet") prepared on the same basis as the consolidated pro forma balance sheet attached on Schedule 2.4(a) was prepared (except that the Effective Time Balance Sheet shall be prepared using actual information as available); and

(ii) in reasonable detail Seller's calculation of the Working Capital at the Effective Time and the Final Working Capital Payment.

Subject to the provisions of Section 7.1(a), Buyer agrees to give Seller and its authorized representatives access to such employees, officers, and other facilities and such books and records of the Retail Companies as are reasonably necessary to allow Seller and its authorized representatives to prepare the Effective Time Balance Sheet in compliance with this Section 2.4. Seller shall give Buyer and its authorized representatives access to its employees, officers and other facilities and such books and records relating to the Retail Companies and the

NewCo Contribution as are reasonably necessary for purposes of reviewing and verifying the Effective Time Balance Sheet and the Statement of Working Capital Calculation.

(c) Dispute Procedures. The Final Working Capital Payment (as set forth in the Statement of Working Capital Calculation) shall become final and binding on Seller and Buyer on the thirtieth (30th) day following the date the Statement of Working Capital Calculation is received by Buyer, unless prior to such date Buyer delivers notice to Seller of its disagreement. Buyer's notice shall set forth all of Buyer's disputed items together with, to the extent reasonably practicable, Buyer's proposed changes thereto, including an explanation in reasonable detail of the basis on which Buyer proposes such changes. Buyer shall be deemed to have agreed with all items and amounts contained in the Statement of Working Capital Calculation that are not specifically identified in such notice of disagreement.

If Buyer has delivered a timely notice of disagreement, then Buyer and Seller shall use their good faith efforts to reach agreement on the disputed items to determine the Final Working Capital Payment.

If Buyer and Seller have not signed an agreement resolving the disputed items by the sixtieth (60th) day following Buyer's receipt of the Statement of Working Capital Calculation, then Buyer's disputed items set forth in the notice of disagreement shall be submitted to the Independent Accountants for resolution within five (5) Business Days after the end of the foregoing sixty (60) day period. Promptly, but no later than thirty (30) days after receipt of the notice of disagreement, the Independent Accountants shall render a written report as to the resolution of the dispute and the resulting computation of the Final Working Capital Payment. In making such determination, the Independent Accountants shall consider only those items and amounts in the Statement of Working Capital Calculation with which Buyer has disagreed and are set forth in the notice of disagreement. The fees and expenses of the Independent Accountants shall be borne fifty percent (50%) by Seller and fifty percent (50%) by Buyer. In no event shall the Final Working Capital Payment as determined by the Independent Accountants be more favorable to Seller than reflected on the Statement of Working Capital Calculation prepared by Seller nor more favorable to Buyer than shown in the proposed changes delivered by Buyer pursuant to its notice of disagreement.

(d) Binding Effect. If a dispute notice is timely given pursuant to Section 2.4(c), the Final Working Capital Payment shall be deemed determined on the date that the Independent Accountants give notice to Buyer and Seller of their determination with respect to all disputes regarding the calculation thereof, or, if earlier, the date on which Seller and Buyer agree in writing on the amount thereof, in which case the Final Working Capital Payment shall be calculated in accordance with such determination or agreement, as the case may be. Any determination of the Final Working Capital Payment by the Independent Accountants shall be final and binding upon Buyer and Seller.

(e) Payments. If the Final Working Capital exceeds the Estimated Working Capital Payment, then Buyer shall pay to Seller the amount of such excess, plus interest on the amount of such excess from (and including) the Closing Date to (but excluding) the date of payment at the Specified Rate. If the Final Working Capital is less than the Estimated Working Capital Payment, then Seller shall pay to Buyer the amount of such deficiency, plus interest on

the amount of such deficiency from (and including) the Closing Date to (but excluding) the date of payment at the Specified Rate. Any payment shall be made within five (5) Business Days of the date the Final Working Capital Payment is deemed to be finally determined pursuant to Section 2.4(c) or Section 2.4(d), as the case may be. All of the payments referenced in this Section 2.4 shall be made by confirmed wire transfer of immediately available funds to a bank account or accounts to be designated by the Party receiving the payment. Buyer and Seller agree that, unless otherwise required by applicable Law, all of the payments referenced in this Section 2.4 shall be treated as an adjustment to the Purchase Price for all Tax purposes.

2.5 Purchase Price Allocation. Within ninety (90) days following the execution of this Agreement, the Parties, acting reasonably, shall agree upon the allocation of the Purchase Price for all purposes, including the filing of any Tax Returns. To the extent that interest accrues or a price adjustment occurs following calculation of the Final Working Capital Payment, Buyer and Seller shall promptly make appropriate adjustments to such allocations, and such changed allocations shall then be the allocation that each Party uses for all purposes, including the filing of any Tax Returns, including, without limitation, Form 8594.

ARTICLE 3
CLOSING

3.1 Closing. Subject to fulfillment or waiver of the conditions in this Agreement, the Closing shall take place on the Closing Date. The Closing shall take place at the offices of Bracewell & Giuliani LLP, 711 Louisiana Street, Suite 2300, Houston, Texas 77002, or such other place as the Parties may agree, at 10:00 a.m., Houston, Texas time, on the fifth Business Day following satisfaction or waiver of the conditions to close in Articles 8 and 9 hereof or at such other time as the Parties may agree. Unless otherwise agreed, all Closing transactions shall be deemed to have occurred simultaneously.

3.2 Closing Deliveries by Seller. At the Closing, Seller will deliver or cause its Affiliates, as applicable, to deliver the following documents to Buyer duly executed by Seller or, if applicable, an Affiliate of Seller:

(a) A certificate executed on behalf of Seller by the president or any vice president of Seller, dated the Closing Date, representing and certifying that the conditions set forth in Sections 9.1 and 9.2 have been fulfilled.

(b) The certificates, instruments, and documents listed below:

(i) Assignments or other instruments of transfer duly endorsed in blank, or accompanied by stock powers or other instruments of transfer duly executed in blank, and otherwise in form and substance reasonably acceptable to Buyer for transfer of the Equity Interests to Buyer, free and clear of any Encumbrances;

(ii) The minute books and equity transfer records of each Retail Company (which may be delivered at Seller's offices);

(iii) The written resignations of the officers and directors or managers, as the case may be, of each Retail Company, such resignations to be effective concurrently with the Closing, except as waived by Buyer; and

(iv) The closing tax certificate described in Section 11.7.

(c) An Interim Services Agreement, executed by Seller, in form and substance reasonably satisfactory to Buyer and Seller incorporating the terms and conditions set forth on Schedule 3.2(c) and such other provisions as agreed to by the Parties (the "Interim Services Agreement").

(d) Evidence of the Governmental Approvals, Material Permits and Third Party consents listed on Schedule 3.2(d).

(e) Such other certificates, instruments of conveyance, and documents required by this Agreement or as may be reasonably requested by Buyer prior to the Closing Date to carry out the intent and purposes of this Agreement.

3.3 Closing Deliveries by Buyer. At the Closing, Buyer will deliver or cause its Affiliates, as applicable, to deliver the following documents to Seller duly executed by Buyer or, if applicable, an Affiliate of Buyer:

(a) A certificate executed by an authorized representative of Buyer, dated the Closing Date, representing and certifying, in such detail that the conditions set forth in Sections 8.1 and 8.2 have been fulfilled.

(b) An Interim Services Agreement executed by Buyer.

(c) Evidence of the Governmental Approvals listed on Schedule 3.3(c).

(d) Such other certificates, instruments, and documents required by this Agreement or as may be reasonably requested by Seller prior to the Closing Date to carry out the intent and purposes of this Agreement.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF SELLER

Subject to the disclosures made by Seller in the Seller's Disclosure Schedule, Seller represents and warrants to Buyer as follows:

4.1 Organization. Seller is a corporation duly organized, validly existing, and in good standing under the Laws of the State of Kansas.

4.2 Retail Companies.

(a) List of Retail Companies. Schedule 4.2(a) lists each Retail Company, the jurisdiction of incorporation or formation of each Retail Company, and the authorized and outstanding capital stock or other equity interests of each Retail Company. Each corporate

Retail Company is a corporation duly organized, validly existing, and in good standing under the Laws of the jurisdiction of its incorporation, and each other Retail Company is duly formed and validly existing under the Laws of the jurisdiction of its formation. Each Retail Company has all requisite corporate, limited liability company or partnership power and authority, as applicable, to own, lease, and operate its properties and to carry on its business as now being conducted. Except as set forth in Schedule 4.2(a) no Retail Company owns, directly or indirectly, any capital stock or other equity securities of any other Person.

(b) Qualification. Each of the Retail Companies is duly qualified or licensed to do business as a corporation, limited liability company or partnership, as applicable, and each of the Retail Companies is in good standing in the jurisdictions opposite its name in Schedule 4.2(b), which are the only jurisdictions in which the property owned, leased, or operated by it or the conduct of its business requires such qualification or licensing, except jurisdictions in which the failure to be so qualified or licensed would not have a Material Adverse Effect on the Retail Companies.

(c) Ownership of Equity and Encumbrances. Except as otherwise indicated on Schedule 4.2(c), all of the outstanding capital stock or other equity interests of each Retail Company is owned, directly or indirectly, by the owner reflected on Schedule 4.2(a) free and clear of all Encumbrances, other than (i) restrictions on transfer that may be imposed by federal or state securities Laws, (ii) Encumbrances that arise out of any actions taken by or on behalf of Buyer or its Affiliates, or (iii) Permitted Encumbrances. All outstanding shares of capital stock of each corporate Retail Company have been validly issued and are fully paid and nonassessable and were not issued in violation of any purchase or call option, right of first refusal, subscription right, preemptive right or any similar rights. All equity interests of each other Retail Company have been validly issued and are fully paid, nonassessable and were not issued in violation of any purchase or call option, right of first refusal, subscription right, preemptive right or any similar rights.

(d) Options and Rights to Acquire Equity. Except as set forth on Schedules 4.2(a) or 4.2(d), there are outstanding (i) no securities or other interests of any Retail Company convertible into or exchangeable for shares of capital stock, equity interests, or other voting interests of any Retail Company, (ii) no options, warrants, calls or other rights to acquire from Seller or any Retail Company, and no obligation of Seller or any Retail Company to issue or sell, any shares of capital stock, equity interests or other voting interests of any Retail Company or any securities convertible into or exchangeable for such capital stock, equity interests or voting interests, (iii) no equity equivalents or other similar rights of or with respect to any Retail Company, (iv) no obligations, contingent or otherwise, of Seller or any Retail Company to repurchase, redeem, or otherwise acquire any of the foregoing shares, securities, options, equity equivalents, interests or rights, (v) no obligations, contingent or otherwise, of any Retail Company to provide material funds to, or make any material investment in (in the form of a loan, capital contribution or otherwise), or provide any guarantee with respect to the obligations of, any Person, and (vi) no stock appreciation, phantom stock, profit participation or similar rights with respect to any Retail Company.

4.3 Organizational Documents. Seller has delivered or made available to Buyer accurate and complete copies of each Retail Company's (i) organizational documents as currently in effect and (ii) minute books and equity transfer records.

4.4 Seller's Authority. Seller and each Seller Affiliate which is entering into any Related Agreement has full corporate, limited liability company or partnership power, authority and legal capacity to execute, deliver and perform this Agreement and the Related Agreements to which it is a party. The execution, delivery, and performance by Seller and each Seller Affiliate of this Agreement and the Related Agreements, and the consummation by it of the transactions contemplated hereby and thereby, have been duly authorized and approved by all necessary corporate, limited liability company or partnership action of Seller and such Seller Affiliate. This Agreement has been duly and validly executed and delivered by Seller and constitutes, and each Related Agreement executed or to be executed by Seller and any Seller Affiliate has been, or when executed will be, duly and validly executed and delivered by Seller and such Seller Affiliate and constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of Seller and such Seller Affiliate, enforceable against Seller and such Seller Affiliate in accordance with its terms, except that such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium, and similar Laws affecting creditors' rights generally and (ii) equitable principles which may limit the availability of certain equitable remedies (such as specific performance) in certain instances.

4.5 No Conflict. Except as described on Schedule 4.5, and assuming (i) all consents, approvals, authorizations, and other actions described in Section 4.6 have been obtained, (ii) all filings and notifications listed on Schedule 4.6 have been made, and (iii) the accuracy of the representations and warranties of Buyer set forth in Article 5, the execution, delivery, and performance of this Agreement and the Related Agreements by Seller and each Seller Affiliate party thereto, and the consummation by it of the transactions contemplated hereby and thereby do not and will not:

(a) violate or breach the certificate of incorporation or bylaws (or equivalent organizational documents) of Seller or any Seller Affiliate (including any Retail Company) which is entering into any Related Agreements;

(b) violate or breach, in any material respect, any applicable Law binding upon Seller, any Seller Affiliate or any Retail Company; or

(c) result in any breach of, or constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of any Encumbrance (other than a Permitted Encumbrance), in any material respect, on any of the assets or properties of any Retail Company pursuant to, any material Contract, material Permit, material Order or other material instrument relating to such assets or properties to which any Retail Company is a party or by which any of such assets or properties is bound or affected.

4.6 Consents and Approvals. Except as set forth on Schedule 4.6, and assuming the accuracy of the representations and warranties of Buyer set forth in Article 5, no material Order or Permit of, or declaration, filing or registration with, or notification to, any Governmental

Entity, or any other Person, is required to be made or obtained by Seller, any Seller Affiliate or any Retail Company in connection with the execution, delivery and performance of this Agreement and Related Agreements or the consummation of the transactions contemplated hereby or thereby. On or prior to the Closing, Seller has given notice to all franchise municipalities relating to the franchise agreements listed on Schedule 4.6.

4.7 Permits. Schedule 4.7(a) contains a list of all material Permits which are used in the operations of the Business as presently conducted ("Material Permits"). Except as disclosed in Schedule 4.7(b), (i) the Retail Companies currently hold all Material Permits which are necessary or required for the conduct of the Business as presently conducted (other than Material Permits required by Environmental Laws, as to which Seller's sole representations and warranties are set forth in Section 4.21), (ii) to the Knowledge of Seller, none of the Retail Companies are in material default or violation, and no event has occurred which, with notice or the lapse of time or both, would constitute a material default or violation of any term, condition or provision of any Material Permit, and (iii) no Proceeding is pending or, to the Knowledge of Seller, threatened with respect to any alleged failure by Seller or any Seller Affiliate (including any Retail Company) to have any Material Permit or not to be in compliance, in any material respect, therewith.

4.8 Financial Statements.

(a) Schedule 4.8(a) contains an unaudited, consolidating pro forma balance sheet (the "Balance Sheet") and a statement of income (collectively, the "Financial Statements") of the Retail Companies, assuming that the Excluded Assets were transferred out of the Retail Companies and that the NewCo Contribution was completed on June 30, 2006 as of and for the twelve (12) month period ended June 30, 2006. Such Financial Statements were prepared in accordance with GAAP consistently applied, except as otherwise disclosed on Schedule 4.8(a) and for the exclusion of notes and year-end audit adjustments, and subject to the assumptions and limitations set forth therein.

(b) Except as set forth in Schedule 4.8(b), the Financial Statements, subject to the assumptions and limitations set forth therein, fairly present, in all material respects, the financial position of the Business as of June 30, 2006.

(c) All books, records and accounts of the Retail Companies are accurate and complete and are maintained in all material respects in accordance with good business practice and all applicable Laws. The Retail Companies maintain systems of internal accounting controls sufficient to provide reasonable assurances that:

(i) transactions are, in all material respects, executed in accordance with management's general or specific authorization;

(ii) transactions are, in all material respects, recorded as necessary to permit the preparation of financial statements in conformity with GAAP and to maintain accountability for assets;

(iii) access to material assets is permitted only in accordance with management's general or specific authorization; and

(iv) the recorded accountability for assets is compared with the actual levels at reasonable intervals and appropriate action is taken with respect to any material differences.

4.9 No Undisclosed Liabilities. None of the Retail Companies have any Indebtedness or Liabilities (whether or not required under GAAP to be reflected on a balance sheet or the notes thereto) other than those (i) specifically reflected on and fully reserved against in the Balance Sheet, (ii) incurred in the ordinary course of business consistent with past practice since the Balance Sheet Date, (iii) that are immaterial to the Retail Companies or (iv) set forth on Schedule 4.9.

4.10 Absence of Certain Changes. Except as disclosed on Schedule 4.10, since the Balance Sheet Date, (i) there has not been any event, change, occurrence or circumstance that has had, or would reasonably be expected to have, a Material Adverse Effect on the Retail Companies or the Business, (ii) Seller and the Retail Companies have conducted the Business only in the ordinary course consistent with past practice, (iii) neither Seller (with respect to the Business) nor any Retail Company has suffered any material loss, damage, destruction, or other casualty to any of its property, plant, equipment or inventories (whether or not covered by insurance) and (iv) neither Seller nor any Retail Company has taken any action that would be in violation of Section 6.2 if taken after the execution hereof.

4.11 Tax Matters. Except as disclosed on Schedule 4.11:

(a) Each Retail Company has filed, or has had filed on its behalf, in a timely manner (within any applicable extension periods) with the appropriate Taxing Authority all income, franchise or other material Tax Returns required to be filed with respect to Taxes of each of the Retail Companies and all such Tax Returns are correct and complete in all material respects. No claim has been made by a Taxing Authority in writing in a jurisdiction in which any Retail Company does not currently file a Tax Return that such Retail Company is or may be subject to taxation by that jurisdiction.

(b) All Taxes due and payable by or with respect to the Retail Companies have been paid in full. All amounts of Taxes required to be withheld by each Retail Company have been withheld and have been duly and timely paid to the proper Taxing Authority.

(c) There are no outstanding (i) agreements or waivers extending the statutory period of limitations applicable to any federal, state, local or foreign income, franchise or other material Tax Returns required to be filed, (ii) extensions for the assessment or collection of Taxes, which Taxes have not since been paid, or (iii) powers of attorney that are currently in force with respect to any Tax matter, in each case by or with respect to any of the Retail Companies.

(d) None of the Tax Returns of or with respect to any of the Retail Companies is currently being audited or examined by any Taxing Authority and Seller has no Knowledge, nor has Seller received any written notice, that any Taxing Authority intends to conduct an audit or investigation relating to the Tax Returns of any Retail Company. The consolidated federal income Tax Returns of Seller for taxable periods ended on or before December 31, 2002 have

been examined by the relevant Taxing Authority or the relevant statute of limitations has expired.

(e) No material deficiency for any Taxes has been assessed with respect to Tax Returns filed by or that include any of the Retail Companies that has not been abated or paid in full or adequately provided for on the Balance Sheet. There are no liens other than Permitted Encumbrances as a result of any unpaid Taxes upon any of the assets of the Retail Companies.

(f) None of the Retail Companies (i) is or has ever been a member of any affiliated group that filed or was required to file an affiliated, consolidated, combined or unitary Tax Return (other than a group which Seller is common parent), (ii) has any liability for the Taxes of another Person as transferee, successor or by contract or otherwise or under Treasury Regulation Section 1.1502-6 (or any comparable provision of state, local or foreign Law) or (iii) is a party to any Tax allocation, sharing, indemnity or similar arrangement or agreement (whether or not written) that will survive Closing.

(g) None of the Retail Companies has executed or entered into any written agreement with, or obtained or applied for any written consents or written clearances or any other Tax rulings from, nor has there been any written agreement executed or entered into on behalf of any of them with any Taxing Authority, relating to material Taxes, including any IRS private letter rulings or comparable rulings of any Taxing Authority and closing agreements pursuant to Section 7121 of the Code or any predecessor provision thereof or any similar provision of any Law.

(h) NewCo is and has always been treated as an entity disregarded as separate from its owner for United States federal income tax purposes. Wattenberg has been treated as an entity disregarded as separate from its owner for United States federal income tax purposes since November 1, 1999.

(i) None of the Retail Companies has constituted either a "distributing corporation" or a "controlled corporation" (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock qualifying for tax-free treatment under Section 355 of the Code (A) in the two (2) years prior to the date of this Agreement or (B) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the transactions contemplated by this Agreement.

(j) None of the Retail Companies has engaged in any reportable transaction as defined in Treasury Regulation Section 1.6011-4(b).

(k) Schedule 4.11(k) sets forth the amount of the consolidated overall foreign loss ("COFL") and/or consolidated separate limitation loss ("CSLL") required to be apportioned to KNEI pursuant to Treasury Regulation Section 1.1502-9(c)(2) as of December 31, 2005.

(l) None of the Retail Companies has (i) either agreed to nor is required to make any adjustments pursuant to Section 481(a) of the Code or any similar provision of state, local or foreign Law and, to the Knowledge of Seller, no Taxing Authority has proposed any

such adjustment, and (ii) any application pending with any Taxing Authority requesting permission for any changes in accounting methods.

4.12 Compliance with Applicable Laws. Seller and the Retail Companies are in compliance in all material respects with all Laws related to the Business (other than Environmental Laws, as to which Seller's sole representations and warranties are set forth in Section 4.21 and Laws relating to Taxes, as to which Seller's sole representations and warranties are set forth in Section 4.11). Neither Seller nor any Retail Company has received any notice of or been charged with the material violation of any Laws related to the Business. To the Knowledge of Seller, (i) neither Seller nor any Retail Company is under investigation with respect to the material violation of any Laws and (ii) there are no facts or circumstances which could reasonably form the basis for any such violation.

4.13 Legal Proceedings. Except as disclosed on Schedule 4.13, (i) there are no material Proceedings pending or, to the Knowledge of Seller, threatened against Seller or any Seller Affiliate (including any Retail Company) or any properties related to the Business, (ii) none of Seller or any Seller Affiliate (including any Retail Company) is subject to any material Order of any Governmental Entity related to the Business and (iii) none of Seller or any Seller Affiliate (including any Retail Company) is engaged in any legal action to recover monies due it or for damages sustained by it related to the Business.

4.14 Real Property. Schedule 4.14(a) sets forth a complete list of (i) all material real property, including improvements thereon, owned in fee by Seller (with respect to the Business) or the Retail Companies (individually, an "Owned Property" and collectively, the "Owned Properties") and (ii) all real property leased by Seller (with respect to the Business) or the Retail Companies, as lessor or lessee, for which annual lease payments are in excess of $1 million (individually, a "Leased Property" and collectively, the "Leased Properties"), including a description of each such Leased Property (including the name of the third party and the date of the lease or sublease and all amendments thereto). Seller and each Retail Company, as applicable, have (A) good and indefeasible fee title to each of its Owned Properties, free and clear of all Encumbrances, except (1) as set forth on Schedule 4.14(b) and (2) Permitted Encumbrances, and (B) a valid, binding and enforceable leasehold interest in each of the Leased Properties, free and clear of all Encumbrances other than Permitted Encumbrances. All of the Owned Properties and Leased Properties are, in all material respects, in good operating condition and have been, in all material respects, maintained in a manner consistent with prudent industry practice. Except as disclosed in Schedule 4.14(c), neither Seller nor any Retail Company has received any notice, oral or written, of the intention of any Governmental Entity or other Person to take or use all or any Owned Property or Leased Property.

4.15 Tangible Personal Property. All items of tangible personal property which, individually or in the aggregate, are material to the operation of the Business are, in all material respects, in good condition and in a state of good maintenance and repair (ordinary wear and tear excepted) and are suitable for the purposes used.

4.16 Intellectual Property. Schedule 4.16 sets forth an accurate and complete list of all material Intellectual Property owned by Seller (with respect to the Business) or any Retail Company throughout the world, including the jurisdiction and owner of each application or

registration. Except as set forth on Schedule 4.16, (i) Seller and the Retail Companies own or have valid rights to use all Intellectual Property necessary to operate the Business as currently conducted and (ii) there are no pending or, to the Knowledge of Seller, threatened claims that (A) Seller (with respect to the Business) or any Retail Company is in violation of, infringing upon, diluting or misappropriating any Intellectual Property rights of any third Person or (B) challenge the validity, enforceability or ownership of any Intellectual Property owned by Seller (with respect to the Business) or any Retail Company. To the Knowledge of Seller, no third Person is infringing, violating, diluting, or misappropriating any of the Intellectual Property owned by Seller (with respect to the Business) or any Retail Company.

4.17 Sufficiency of Assets. Except as set forth on Schedule 4.17, the Retail Assets constitute all of the material assets used in or held for use in the Business and are sufficient for Buyer to conduct the Business, as conducted as of the date hereof, from and after the Closing Date without interruption and in the ordinary course of business consistent with past practice. "Retail Assets" shall mean all of the business, assets, properties, contractual rights, goodwill, going concern value, rights and claims of the Retail Companies, wherever situated and of whatever kind and nature, real or personal, tangible or intangible, whether or not reflected on the books and records of the Retail Companies (other than the Excluded Assets but including the NewCo Contribution).

4.18 Certain Obligations of the Retail Companies.

(a) Schedule 4.18(a) sets forth a list of all Contracts to which any Retail Company is a party for joint ventures, strategic alliances, partnerships, material licensing arrangements, or sharing of profits or proprietary information.

(b) Schedule 4.18(b) sets forth a list of all Contracts to which any Retail Company is a party containing (i) covenants limiting the freedom of the Retail Companies to engage in any line of business, compete with any Person, operate at any location or to solicit or hire any person or (ii) covenants of any other Person not to compete with any of the Retail Companies in any line of business or in any geographical area or not to solicit or hire any person.

(c) Schedule 4.18(c) sets forth a list of all price swaps, hedges, futures or similar instruments to which any of the Retail Companies is a party.

(d) Schedule 4.18(d) sets forth a list of all Contracts to which Seller (with respect to the Business) or any Retail Company is a party, on the one hand, with Seller or any Seller Affiliate (other than another Retail Company) or any current or former officer, director, stockholder, member, partner (or family member thereof) of Seller or any Seller Affiliate, on the other hand.

(e) Schedule 4.18(e) sets forth a list of all Contracts to which any Retail Company is a party with any labor union or association representing any employee of the Retail Companies.

(f) Schedule 4.18(f) sets forth a list of all Contracts to which any Retail Company is a party for the sale of any of the assets of the Retail Companies other than in the

ordinary course of business consistent with past practice or for the grant to any Person of any preferential rights to purchase any of its assets.

(g) Schedule 4.18(g) sets forth a list of all Contracts to which any Retail Company is a party relating to the acquisition (by merger, purchase of stock or assets or otherwise) by any Retail Company of any operating business or material assets or the capital stock of any other Person.

(h) Schedule 4.18(h) sets forth a list of all Contracts to which any Retail Company is a party relating to the incurrence, assumption or guarantee of any Indebtedness or imposing an Encumbrance on any of the assets of any Retail Company or the Business, including indentures, guarantees, loan or credit agreements, sale and leaseback agreements, purchase money obligations incurred in connection with the acquisition of property, mortgages, pledge agreements, security agreements, or conditional sale or title retention agreements.

(i) Schedule 4.18(i) sets forth a list of all Contracts to which any Retail Company is a party providing for payments by or to any Retail Company in excess of $1 million in any fiscal year or $5 million in the aggregate during the term thereof; provided that the calculation of the aggregate payments for any such Contract shall not include payments attributable to any renewal periods or extensions for which the relevant Retail Company may exercise an option in its sole discretion to approve or disapprove.

(j) Schedule 4.18(j) sets forth a list of all Contracts to which any Retail Company is a party under which any Retail Company has made advances or loans to any other Person.

(k) Schedule 4.18(k) sets forth a list of all Contracts to which any Retail Company is a party providing for severance, retention, change in control or other similar payments.

(l) Schedule 4.18(l) sets forth a list of all outstanding Contracts of guaranty, surety or indemnification, direct or indirect, by any of the Retail Companies, which reasonably could be expected to result in liability to the Retail Companies in excess of $1 million (each document set forth on Schedules 4.18(a) through (l), being a "Material Contract").

(m) Except as set forth in Schedule 4.18(m), each Material Contract is in full force and effect and is legal, valid, binding and enforceable in all material respects in accordance with its terms by and against the Retail Company party thereto and, to the Knowledge of Seller, each other party thereto, in each case subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar Laws affecting creditors' rights and remedies generally and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity). None of Seller or any of the Retail Companies party to any Material Contract is in material breach of the terms of any such Material Contract and, to the Knowledge of Seller, (i) no other party to any Material Contract is in material breach of the terms thereof and (ii) no event has occurred that with the lapse of time or the giving of notice or both would constitute a material breach or default of any Retail Company or any other party

thereunder. No party to any of the Material Contracts has exercised any termination rights with respect thereto, and no party has given notice of any significant dispute with respect to any Material Contract. Seller has delivered or made available to Buyer correct and complete copies of all of the Material Contracts, together with all amendments, modifications or supplements thereto. To Seller's Knowledge, no Retail Company is a party to any material oral contract, agreement or arrangement.

4.19 Labor Matters. Seller has previously delivered to Buyer correct and complete copies of all collective bargaining agreements to which Seller or any Retail Company is a party or is subject and which relate to employees who provide services to Retail Companies or the Business. With respect to employees who provide services to Retail Companies or the Business, except to the extent set forth in Schedule 4.19:

(a) each of Seller and the Retail Companies is in material compliance with all applicable Laws respecting independent contractor status, employment and employment practices, labor relations, occupational safety and health, plant closing, mass layoffs, non-discrimination obligations, terms and conditions of employment and wages and hours;

(b) none of Seller or any Retail Company has received any written notice of any unfair labor practice complaint against Seller (with respect to the Business) or any Retail Company threatened or pending before the National Labor Relations Board;

(c) no arbitration proceeding or grievance arising out of or under any collective bargaining agreement is threatened or pending against Seller (with respect to the Business) or any Retail Company;

(d) none of Seller or any Retail Company has received notice that any representation petition respecting the employees of Seller (with respect to the Business) or any Retail Company has been or will be filed with the National Labor Relations Board;

(e) none of Seller or any Retail Company is subject to minimum staffing levels created by requirements of law or any agreement; and

(f) none of Seller (with respect to the Business) or any Retail Company has experienced any union organizing drive, campaign, or representation election petition, labor strike, slowdown, or any work stoppage within the three-year period prior to the date hereof and to Seller's Knowledge none is currently threatened against or affecting Seller (with respect to the Business) or any Retail Company.

4.20 Employee Matters.

(a) Schedule 4.20(a) lists all Benefit Plans maintained or contributed to by Seller or any Retail Company in respect of current or former employees providing services to Retail Companies or the Business, or in which the employees of Seller or any Retail Company connected with the Retail Companies or the Business participate. True and complete copies of all such Benefit Plans (other than a "multiemployer plan" as defined in ERISA Section 4001(a)(3)), and any documents reasonably requested by the Buyer related to such Benefit Plans, have been delivered to the Buyer.

(b) Except as stated in Schedule 4.20(b), no liability under Title IV of ERISA or Code Section 412 has been incurred by Seller (with respect to the Business) or any Retail Company or any ERISA Affiliate that has not been satisfied in full, and no condition exists that presents a material risk to Seller, any Retail Company or any ERISA Affiliate of such party incurring any such liability, other than liability for premiums due to the PBGC (which premiums have been paid when due). There has not been any reportable event (as defined in ERISA Section 4043) with respect to any Benefit Plan (other than a "multiemployer plan" as defined in ERISA Section 4001(a)(3)) (other than a reportable event with respect to which the notice requirement has been waived by the PBGC). Insofar as the representation made in this Section 4.20 applies to Sections 4064, 4069 or 4204 of Title IV of ERISA, it is made with respect to any employee benefit plan, program, agreement or arrangement subject to Title IV of ERISA to which Seller, any Retail Company or any ERISA Affiliate made, or was required to make, contributions during the five (5) year period ending on the last day of the most recent plan year ended prior to the Closing Date.

(c) Except as stated in Schedule 4.20(c) or as required by applicable Law, consummation of the transactions contemplated by this Agreement will not, either alone or in combination with another event, (i) entitle any current or former employee or officer of Seller or any Retail Company or any ERISA Affiliate providing services to Retail Companies or the Business, currently or in the immediately preceding twelve (12) months, to severance pay, unemployment compensation or any other payment, except as expressly provided in this Agreement, or (ii) accelerate the time of payment or vesting, or increase the amount of compensation due any such employee or officer.

(d) Except as stated in Schedule 4.20(d), other than routine claims for benefits in the ordinary course, there are no pending or, to the Knowledge of Seller, threatened or anticipated claims with respect to any Benefit Plans, by any employee or beneficiary covered under any such Benefit Plans with respect to services performed for any Retail Company or the Business, or otherwise involving any such Benefit Plan, employee or beneficiary.

(e) Except as stated in Schedule 4.20(e), each Benefit Plan that covers or previously covered employees performing services for Retail Companies or the Business and the administration thereof complies, and has at all times complied, in all material respects with its terms and the requirements of all applicable laws, including ERISA and the Code.

(f) Seller Savings Plan is intended to qualify under Code Section 401(a) has been determined by the IRS to be so qualified and such determination takes into account all applicable legal and regulatory requirements (except to the extent that such a determination is not yet due under Revenue Procedure 2005-66), and each trust maintained pursuant thereto is exempt from federal income taxation under Code Section 501(a) and nothing has occurred with respect to the operation of Seller Savings Plan which could reasonably be expected to cause the loss of such qualification or exemption or the imposition of any material liability, penalty or tax under ERISA or the Code. All contributions required to have been made under Seller Savings Plan to any funds or trusts established thereunder or in connection therewith have been made by the due date thereof (including any valid extension) and all filings, notices and disclosures required under ERISA or the Code have been made in a timely manner.

4.21 Environmental.

(a) Except as set forth in Schedule 4.21(a), (i) to the Knowledge of Seller, each of Seller and the Retail Companies is conducting, and during the last five (5) years has conducted the Business in material compliance with all applicable Environmental Laws, (ii) each of Seller (with respect to the Business) and the Retail Companies has obtained and is maintaining and materially complying with any and all Material Permits required by Environmental Laws, (iii) none of Seller or any Retail Company has received any written notices or demand letters from any Governmental Entity or Third Party related to the Business, indicating that Seller or any Retail Company is in material violation of, or liable under, any Environmental Law, including, but not limited to, liability or obligations at Third-Party sites used for the treatment or storage of hazardous substances, materials or wastes, which violation or liability has not heretofore been resolved with such Governmental Entity or Third Party, (iv) to the Knowledge of Seller, there has been no material release of any material, substance or waste classified or characterized as hazardous or toxic or as a pollutant or contaminant under any Environmental Law ("Hazardous Materials") at any property related to the Business currently or, to the Knowledge of Seller, formerly owned, operated or leased by Seller or any Retail Company or any of their predecessors-in-interest at concentrations that would reasonably be expected to result in Seller or any Retail Company incurring any material obligation to undertake any investigation or remediation under Environmental Laws, and (v) to the Knowledge of Seller, there is not located on any real property owned or operated by Seller, with respect to the Business, or any Retail Company containing any asbestos or asbestos-containing materials or any polychlorinated biphenyls or equipment containing polychlorinated biphenyls, other than those that are in material compliance with Environmental Laws.

(b) Except as disclosed on Schedule 4.21(b), to the Knowledge of Seller, none of Seller, with respect to the Business, or any Retail Company nor any predecessor-in-interest has owned or operated any manufactured gas plant ("MGP") and no MGP has been located on any real property currently or previously owned or leased by any Retail Company or related to the Business;

(c) Except as set forth on Schedule 4.21(c), none of Seller or any Retail Company has assumed by Contract or, to the Knowledge of Seller, by Law any Liability related to the Business under Environmental Laws or agreed to provide any indemnity related to the Business to any Third-Party for any material Losses under Environmental Laws; and

(d) Seller has made available to Buyer copies of all material environmental, health and safety assessments, audits, inspections, or similar reports and any material non-privileged documents and correspondence relating to any potential material liabilities of the Retail Companies or the Business or related to any property currently or previously owned, operated or leased by Seller or any Retail Company related to the Business, to the extent in the possession or custody of Seller.

4.22 Insurance. Except as disclosed in Schedule 4.22, (i) all insurance policies maintained with respect to the Retail Companies are in full force and effect and all premiums due and payable on such policies have been paid (other than retroactive or retrospective premium adjustments that are not yet, but may be, required to be paid with respect to any period ending

prior to the Closing Date and which will be the sole responsibility of Seller), (ii) no notice of cancellation of, or indication of an intention not to renew, any such insurance policy has been received by Seller or any Retail Company since January 1, 2003, and (iii) each such insurance policy listed on Schedule 4.22 will terminate at Closing with respect to the Retail Companies.

4.23 Brokerage Fees. Except as set forth on Schedule 4.23, neither Seller nor any of its Affiliates has retained any financial advisor, broker, agent, or finder on account of this Agreement or the transactions contemplated hereby, and no Person is or will be entitled to any fee or commission or like payment in respect thereof.

4.24 Banks; Power of Attorney. Schedule 4.24 contains a complete and correct list of the names and locations of all banks in which Seller, with respect to the Business, and each Retail Company has accounts or safe deposit boxes and the names of all persons authorized to draw thereon or to have access thereto. Except as set forth on Schedule 4.24, no person holds a power of attorney to act on behalf of such Retail Company.

4.25 Certain Payments. None of Seller, with respect to the Business, or any Retail Company nor, to the Knowledge of Seller, any director, officer, employee, or other Person associated with or acting on behalf of any of them, has directly or indirectly (a) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, private or public, regardless of form, whether in money, property, or services (i) to obtain favorable treatment in securing business for Seller, with respect to the Business, or any Retail Company, (ii) to pay for favorable treatment for business secured by Seller, with respect to the Business, or any Retail Company, (iii) to obtain special concessions or for special concessions already obtained, for or in respect of the Business, or (iv) in violation of any Law, or (b) established or maintained any fund or asset with respect to the Business that has not been recorded in the books and records of Seller or any such Retail Company.

4.26 No Other Representations. EXCEPT AS AND TO THE EXTENT SET FORTH IN THIS ARTICLE 4 AND IN THE RELATED AGREEMENTS, SELLER MAKES NO REPRESENTATION OR WARRANTY WHATSOEVER TO BUYER AND SELLER HEREBY DISCLAIMS ALL LIABILITY AND RESPONSIBILITY FOR ANY REPRESENTATION, WARRANTY, STATEMENT, OR INFORMATION MADE, COMMUNICATED, OR FURNISHED (ORALLY OR IN WRITING) TO BUYER OR ITS REPRESENTATIVES (INCLUDING WITHOUT LIMITATION ANY OPINION, INFORMATION, PROJECTION, OR ADVICE THAT MAY HAVE BEEN OR MAY BE PROVIDED TO BUYER BY ANY DIRECTOR, OFFICER, EMPLOYEE, AGENT, CONSULTANT, OR REPRESENTATIVE OF SELLER OR ANY AFFILIATE THEREOF). EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED HEREIN AND IN THE RELATED AGREEMENTS, BUYER IS ACQUIRING THE EQUITY INTERESTS, THE BUSINESS AND ASSETS OF THE RETAIL COMPANIES "AS IS" AND "WHERE IS." EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN ARTICLE 4 AND IN THE RELATED AGREEMENTS, THE SELLER HEREBY EXPRESSLY DISCLAIMS AND NEGATES ANY REPRESENTATION OR WARRANTY, EXPRESSED OR IMPLIED, AT COMMON LAW, BY STATUTE, OR OTHERWISE, RELATING TO THE CONDITION OF THE ASSETS OF THE RETAIL COMPANIES (INCLUDING ANY IMPLIED OR EXPRESSED WARRANTY OF

MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, OR OF CONFORMITY TO MODELS OR SAMPLES OF MATERIALS). SELLER MAKES NO REPRESENTATIONS OR WARRANTIES TO BUYER REGARDING THE PROBABLE SUCCESS OR PROFITABILITY OF THE BUSINESS OF THE RETAIL COMPANIES.

ARTICLE 5
REPRESENTATIONS AND WARRANTIES OF BUYER

Subject to the disclosures made by Buyer in the Buyer's Disclosure Schedule, Buyer represents and warrants to Seller as follows:

5.1 Organization. Buyer is a corporation duly organized, validly existing, and in good standing under the Laws of the jurisdiction of its incorporation.

5.2 Buyer's Authority. Buyer has full corporate power and corporate authority and legal capacity to execute, deliver and perform this Agreement and any Related Agreements to which it is a party. The execution, delivery, and performance by Buyer of this Agreement and such Related Agreements and the consummation by it of the transactions contemplated hereby and thereby, have been duly authorized and approved by all necessary corporate action of Buyer. This Agreement has been duly and validly executed and delivered by Buyer and constitutes, and each such Related Agreement executed or to be executed by Buyer has been, or when executed will be, duly and validly executed and delivered by Buyer and constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of Buyer, enforceable against Buyer in accordance with its terms, except that such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium, and similar Laws affecting creditors' rights generally and (ii) equitable principles which may limit the availability of certain equitable remedies (such as specific performance) in certain instances.

5.3 No Conflict. Assuming all consents, approvals, authorizations, and other actions described in Section 5.4 have been obtained and all filings and notifications listed on Schedule 5.4 have been made, the execution, delivery and performance of this Agreement and the Related Agreements by Buyer, and the consummation by it of the transactions contemplated hereby and thereby do not and will not:

(a) violate or breach the certificate of incorporation or bylaws of Buyer;

(b) violate or breach, in any material respect, any applicable Law binding upon Buyer; or

(c) result in any breach of, or constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of any Encumbrance, in any material respect, on any of the assets or properties of Buyer pursuant to, any material Contract, material Permit, material Order or other material instrument relating to such assets or properties to which Buyer is a party or by which any of such assets or properties is bound or affected.

5.4 Consents and Approvals. No Order or Permit of, or declaration, filing or registration with, or notification to, any Governmental Entity, or any other Person, in any material respect, is required to be made or obtained by Buyer or any of its Affiliates in connection with the execution, delivery and performance of this Agreement and the Related Agreements or the consummation of the transactions contemplated hereby or thereby, except (a) applicable requirements of the HSR Act and (b) as set forth on Schedule 5.4.

5.5 Financing. Buyer has, and at the Closing will have, sufficient cash, available lines of credit, or other sources of immediately available funds to enable it to pay the full Purchase Price to Seller when required hereunder and to consummate the transactions contemplated hereunder.

5.6 Legal Proceedings. There are no Proceedings pending or, to the Knowledge of Buyer, threatened seeking to restrain, prohibit, or obtain damages or other relief in connection with this Agreement or the transactions contemplated hereby.

5.7 Brokerage Fees. Except as set forth on Schedule 5.7, neither Buyer nor any of its Affiliates has retained any financial advisor, broker, agent, or finder on account of this Agreement or the transactions contemplated hereby, and no Person is or will be entitled to any fee or commission or like payment in respect thereof.

5.8 Nature of Investment. Buyer is acquiring the Equity Interests for investment purposes only and not with a view toward resale or distribution thereof in violation of applicable securities Laws.

5.9 Independent Investigation. Buyer hereby acknowledges and affirms that it has completed its own independent investigation, analysis and evaluation of the Retail Companies, that it has made all such reviews and inspections of the business, assets, results of operations, condition (financial or otherwise) and prospects of the Retail Companies as it has deemed necessary or appropriate, and that in making its decision to enter into this Agreement and to consummate the transactions contemplated hereby it has relied solely on (a) its own independent investigation, analysis, and evaluation of the Retail Companies and (b) the representations and warranties and covenants of Seller set forth herein and in the Related Agreements.

ARTICLE 6
CONDUCT OF RETAIL COMPANIES PENDING CLOSING

6.1 Conduct of Business. Except as specifically provided in this Agreement (including Schedule 6.2), during the period from the date hereof to the Closing, Seller shall cause each Retail Company to conduct its operations in the ordinary course of business consistent with past practice and shall use Reasonable Efforts to preserve, maintain, and protect its material assets, rights, and properties, including, without limitation, continuation of the budgeted Capital Expenditure Plan provided to Buyer. Notwithstanding anything to the contrary herein, Seller shall satisfy, by repayment, cancellation or otherwise, all intercompany payables and receivables between any Retail Company, on the one hand, and Seller or its Affiliates (other than the Retail Companies) on the other hand.

6.2 Pre-Closing Restrictions. Without limiting the generality of Section 6.1 and except as contemplated by the NewCo Contribution, Section 7.7 or as otherwise expressly provided in Schedule 6.2, prior to the Closing, without the prior written consent of Buyer, which consent shall not be unreasonably withheld, Seller (with respect to the Business) shall not, and shall not permit any Retail Company, to take or omit to take any action to:

(a) amend the charter or bylaws or other equivalent organizational or governing instruments of any Retail Company;

(b) (i) transfer, issue, sell, pledge, encumber, dispose or deliver any shares of capital stock of any class or any other securities or equity equivalents of any Retail Company; (ii) grant options, warrants, calls or other rights to purchase or otherwise acquire shares of capital stock of any class or any other securities or equity equivalents of any Retail Company or (iii) amend in any material respect any of the terms of any such securities or equity equivalents outstanding as of the date hereof;

(c) (i) split, combine, or reclassify any shares of capital stock or outstanding equity of any Retail Company; (ii) declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of capital stock or outstanding equity of any Retail Company; (iii) repurchase, redeem or otherwise acquire any securities of any Retail Company; or (iv) adopt a plan of complete or partial liquidation or resolutions providing for or authorizing a liquidation, dissolution, merger, consolidation, restructuring, recapitalization, or other reorganization of any Retail Company;

(d) (i) except in the ordinary course of business consistent with past practice, (A) create, incur, endorse, guarantee, or assume any Indebtedness of any Retail Company or (B) modify the terms of any Indebtedness or other material Liability of any Retail Company; (ii) cause any Retail Company to make any loans, advances, or capital contributions to, or investments in, any other Person (other than another Retail Company); or (iii) mortgage or pledge any material assets of any Retail Company, tangible or intangible, or create any material Encumbrance thereupon other than Permitted Encumbrances;

(e) Except as otherwise required by the terms of any collective bargaining agreement:

(i) hire at, or transfer, to any Retail Company, any new employees prior to Closing, other than to fill vacancies in existing positions in the reasonable discretion of Seller,

(ii) take any action prior to Closing to affect a material change in any collective bargaining agreement;

(iii) take any action prior to Closing to materially increase any benefits payable to the employees employed in connection with any Retail Company or the Business;

(iv) establish, adopt, enter into or amend any collective bargaining agreement or Benefits Plan, except as required under applicable Law or under the

terms of any collective bargaining agreement or, with respect to Benefits Plans, in the ordinary course of business consistent with past practice;

(v) grant to any employee any increase in compensation, except:

(1) in the ordinary course of business consistent with past practice, or

(2) to the extent required by the terms of any collective bargaining agreement or employment agreement in effect as of the date of this Agreement or applicable Law.

(f) acquire, sell, lease, license, assign, convey, transfer, or otherwise dispose of, directly or indirectly, any assets of any Retail Company outside the ordinary course of business consistent with past practice;

(g) cause any Retail Company to acquire (by merger, consolidation, or acquisition of stock or assets or otherwise) any corporation, partnership, or other business organization or division thereof;

(h) (i) amend, modify, or change in any material respect any Material Contract other than amendments, modifications or changes to such Contracts of the nature described in Section 4.18(c) made in the ordinary course of business consistent with past practices relating to the execution of new trades under Contracts of the nature described in Section 4.18(c) or (ii) enter into any Material Contract other than Contracts of the nature described in Section 4.18(c) entered into in the ordinary course of business consistent with past practices with parties having a credit rating of AA or higher and, in the case of clauses (i) and (ii), collectively, which do not result in additional potential Liability greater than $3 million in the aggregate; provided that, the foregoing shall not prevent immaterial trades with historical counter parties;

(i) make any change in any material respect to any of the accounting principles, methods, policies or practices used by any Retail Company, except for any change required by reason of a concurrent change in GAAP;

(j) cause any Retail Company to engage in any new business or acquire the securities of any other Person;

(k) cause any Retail Company to compromise any debt or claim or waive or release any material right except in the ordinary course of business consistent with past practice;

(l) other than in response to an emergency situation as is reasonably necessary to protect human health or safety, or the environment, or to provide for continuation of services of the Business, enter into any commitment for capital expenditures not provided for in the Capital Expenditure Plan provided to Buyer in excess of $500,000 for any individual commitment and $2 million for all commitments in the aggregate that will not be satisfied prior to Closing;

(m) enter into any Contract that restrains, restricts, limits or impedes the ability of the Retail Companies to compete with or conduct any business or line of business in any geographic area or solicit the employment of any persons;

(n) settle or compromise any pending or threatened Proceeding or any claim or claims for, or that would result in a Loss by any Retail Company following the Closing of, an amount that could, individually or in the aggregate, reasonably be expected to be greater than $1 million;

(o) (i) make, change or revoke any material Tax election or settle or compromise any material Tax claim or liability or (ii) prepare or file any Tax Return (or any amendment thereof) unless such Tax Return shall have been prepared in a manner consistent with past practice;

(p) change or modify credit, collection or payment policies, procedures or practices of any Retail Company, including acceleration of collections or receivables (whether or not past due) or fail to pay or delay payment of payables or other liabilities;

(q) settle any rate case with, or enter into or obtain any franchise renewal or consent to transfer any franchise, from any Governmental Entity; or

(r) commit or agree to do any of the foregoing.

ARTICLE 7
ADDITIONAL AGREEMENTS

7.1 Access to Information and Confidentiality.

(a) Access. Between the date hereof and the Closing, Seller:

(i) shall give Buyer and its authorized representatives reasonable access, during regular business hours and upon reasonable advance notice, to such offices, plants, pipelines, personnel, and other facilities, and such books and records of Seller and the Retail Companies, as are reasonably necessary to allow Buyer and its authorized representatives to make such inspections as they may reasonably require to verify the accuracy of any representation or warranty contained in Article 4; and

(ii) shall cause officers and the other employees of the Retail Companies to promptly furnish Buyer and its authorized representatives with such financial and operating data and other information with respect to the Retail Companies as Buyer may from time to time reasonably request.

Seller shall have the right to have a representative present at all times during any such inspections, interviews, and examinations conducted at or on the offices or other facilities or properties of Seller or the Retail Companies. Additionally, Buyer shall hold in confidence all such information on the terms and subject to the conditions contained in the Confidentiality

Agreement. Buyer shall have no right of access to, and Seller shall have no obligation to provide to Buyer, information relating to:

(1) bids received from others in connection with the transactions contemplated by this Agreement and information and analysis (including financial analysis) relating to such bids; or

(2) any information the disclosure of which would jeopardize any privilege available to any Retail Company, Seller or any Seller Affiliate relating to such information or would cause Seller, any Seller Affiliate or any Retail Company to breach a confidentiality obligation;

provided that (i) in the case of (1) above, at Closing, Buyer will be assigned all of Seller's rights under all confidentiality agreements executed by third parties in connection with such bidding process and (ii) in the case of (2) above, (A) Seller will use Reasonable Efforts to provide such information to Buyer, including, without limitation, through the execution by Buyer and Seller of a joint defense agreement and (B) Seller will, at a minimum, inform Buyer of the estimated exposure of the Retail Companies in the matters to which such information relates.

(b) Retention by Seller. Seller and any Seller Affiliates may retain a copy of all data room materials and all books and records prepared in connection with the transactions contemplated by this Agreement, including (i) copies of any books and records which may be relevant in connection with the defense of disputes arising hereunder and (ii) copies of all financial information and all other accounting books and records prepared or used in connection with the preparation of financial statements of Seller.

(c) Access to Employee Records; Record Preservation. For seven (7) years after the Closing Date (or such longer period as may be required by applicable Law), with respect to the Retail Companies, each Party and its authorized representatives shall preserve and keep all books and records (other than Tax Records which are addressed in Section 11.5). For seven (7) years after the Closing Date (or such longer period as may be required by applicable Law), Buyer shall have reasonable access to all Employee Records and any other records, the disclosure of which is required by Law or legal or regulatory process or subpoena, in the possession of Seller or any ERISA Affiliate to the extent that such access may reasonably be required in connection with the Transferred Employees, or other matters relating to or affected by the operation of the Business. Thereafter, each Party shall give to the other Party at least ninety (90) calendar days' prior notice of its intent to dispose of any of such books and records, and such other Party shall be given an opportunity, at its cost and expense, to remove and retain all or any part of such books and records as such other Party may select.

7.2 Regulatory and Other Authorizations and Consents.

(a) Filings; Additional Actions. Each Party shall use all Reasonable Efforts to obtain all declarations, Permits and Orders of, and to give all notices to and make all filings with, all Governmental Entities (including those pertaining to the Governmental Approvals) and other Third Parties that may be or become necessary for its execution and delivery of, and the performance of its obligations under this Agreement and will cooperate fully with the other Party

in promptly seeking to obtain all such declarations, Permits and Orders, giving such notices, and making such filings. To the extent that any consent set forth on Schedule 7.2(a) cannot be obtained, at the request of Buyer, Seller shall enter into other arrangements which result in the Retail Companies being in the same economic position as though the consent had been obtained. To the extent required by any Law, including the HSR Act and applicable Mexico antitrust Laws, each Party shall:

(i) file or cause to be filed, as promptly as practicable but in no event later than the tenth Business Day after the execution and delivery of this Agreement, with the (A) Federal Trade Commission and the United States Department of Justice, all reports and other documents required to be filed by such Party under the HSR Act concerning the transactions contemplated hereby, and (B) appropriate Governmental Entity, all reports and other documents required to be filed under applicable Mexico antitrust Laws concerning the transactions contemplated hereby; and

(ii) promptly comply with, or cause to be complied with, any requests by the Federal Trade Commission, the United States Department of Justice or any other Governmental Entity in respect of such filings or transactions, for additional information concerning such transactions, in each case so that the waiting period applicable to this Agreement and the transactions contemplated hereby under the HSR Act shall expire as soon as practicable after the execution and delivery of this Agreement.

Each Party shall request, and use its Reasonable Efforts to cooperate with the other Party in requesting, early termination of any applicable waiting period under the HSR Act. Buyer shall pay the filing fees payable in connection with the filings by the Parties required by the HSR Act any applicable Mexico antitrust Laws.

(b) Third Party Consents. Seller shall, and shall cause the Retail Companies to, use Reasonable Efforts to obtain at the earliest practicable date all consents, waivers and approvals from, and provide all notices to, all Persons that are not a Governmental Entity, which consents, waivers, approvals and notices are required to consummate, or are otherwise in connection with, the transactions contemplated by this Agreement, including the consents, waivers, approvals and notices referred to in Sections 4.6 and 5.4 hereof (except for such matters covered by Section 7.2(a)). Buyer will use its Reasonable Efforts to assist Seller in obtaining any such consents waivers and approvals from Third Parties.

(c) Notification of Non-Compliance. On or prior to Closing, Seller shall provide the appropriate notification of non-compliance with respect to the required air permit associated with the Naturita Creek Compressor Station in Colorado, as further described on Schedule 4.21(a).

7.3 Employee Matters.

(a) Employees. Schedule 7.3(a) contains a list of employees of Seller, any Retail Company or any ERISA Affiliates employed in the operation of the Business, including

employees who are receiving short-term disability benefits or are on family and medical, administrative, or military leave or any other type of leave that entitles the employee to reinstatement upon completion of the leave under the applicable leave policies of Seller. Schedule 7.3(a) shall list employees by name, classification (union v. nonunion and exempt v. nonexempt), location or department, and base pay or pay rate. Seller shall be entitled to update Schedule 7.3(a) as necessary at any time prior to Closing to reflect any and all employment changes.

(b) Employment Offers to Employees. During the forty-five (45) day period prior to the Closing Date, Buyer, on behalf of the Retail Companies, shall make written offers of employment to all of the Non-Union Employees listed on Schedule 7.3(a), which list shall not include any Non-Union Employees that are not working due to a Long-Term Disability, to be effective as of the Closing Date at a base pay that is not less than the employee's existing base pay immediately prior to the Closing Date. Each Non-Union Employee who accepts such offer of employment pursuant to this Section 7.3(b) shall be referred to herein as a "Transferred Non-Union Employee."

With respect to employees other than Non-Union Employees listed on Schedule 7.3(a), which list shall not include any Union Employees that are not working due to a Long-Term Disability, Buyer shall be required, on behalf of the Retail Companies, to offer employment only to those number of employees of Seller or any Retail Company covered by the CWA CBA who are either (i) employed in positions relating to any facility of a Retail Company or (ii) if employed at another location, perform substantially all their work in support of the Business, and, in each case, who are necessary to satisfy Buyer's staffing level requirements (collectively, "Union Employees"). In each classification, Union Employees shall be so offered employment in order of their seniority as provided for in the CWA CBA. Each person who accepts such offers of employment pursuant to this paragraph shall be referred to herein as a "Transferred Union Employee." For such Transferred Union Employees, Buyer shall recognize the CWA as the exclusive collective bargaining representative.

All offers of employment made by Buyer pursuant to this Section 7.3 shall be made in accordance with all applicable Laws and regulations, and for Union Employees, in accordance with the CWA CBA. Any such offer which is accepted within the ten (10) working day period following receipt of the offer shall be irrevocable by Buyer until the earlier of the Closing Date or the termination of this Agreement pursuant to its terms. At least fifteen (15) days prior to the anticipated Closing Date, Buyer shall deliver to Seller a list of the employees that have accepted employment with Buyer effective as of the Closing Date (the "Transferred Employees"), which acceptance may be conditioned upon the occurrence of the Closing, and each other Union Employee or Non-Union Employee who has rejected Buyer's offer of employment. Any Union Employee or Non-Union Employee who does not accept such offer of employment and who is subsequently hired by Buyer shall not be credited with their previous service with Seller, any Retail Company and ERISA Affiliates for the purposes of any of Buyer's benefit plans, except as may otherwise be required by applicable Law. Buyer shall be responsible for all severance obligations pursuant to the terms of Seller's severance plan as disclosed on Schedule 4.20(a), a copy of which has been delivered to Buyer, for any employee listed on Schedule 7.3(a) who does not (i) receive an offer of employment from Buyer, or accept the offer of employment from Buyer pursuant to Section 7.3(b) hereof and (ii) does not continue

employment with Seller or an ERISA Affiliate after the Closing Date; provided, however, that Seller and its ERISA Affiliates shall use Reasonable Efforts to deny severance eligibility under Seller's severance plan in accordance with its terms as of the date hereof.

(c) Transfer Time and Severance. All Transferred Employees shall become employees of Buyer or any of its Affiliates (including the Retail Companies) as of Closing. Nothing in this Agreement shall affect Buyer's or any of its Affiliates' right to terminate the employment of any Transferred Employee, with or without cause. Buyer shall be responsible for all Liabilities, including severance, relating to or arising from such termination.

(d) Level of Employee Benefits Provided by Buyer. Effective as of the Closing Date and for a period of not less than one (1) year following the Closing Date, Buyer shall cause the applicable Retail Company to provide to all Transferred Employees employee benefits that shall be substantially comparable, in the aggregate as determined by Buyer, to the benefits provided to the Transferred Employees by Seller immediately prior to Closing. No later than the Closing Date, Seller will provide to Buyer the Transferred Employees' recognized credited service, current vacation balances, and participation, vesting and, as applicable, benefit accrual periods of service amounts under the applicable Benefits Plans of Seller as of the day immediately prior to the Closing Date. Buyer shall count and credit such service with respect to each Transferred Employee as service with Buyer for all purposes under Buyer's Benefit Plans, programs, policies and pay practices, except that such credited service and benefit accrual periods of service prior to Closing shall not be counted for purposes of benefit accrual under any pension plan (with the meaning of ERISA Section 3(2)). No provision of this Agreement shall affect any Transferred Non-Union Employee's status as an employee-at-will. Buyer and Seller also agree to the following commitments:

(i) With respect to health care plans, Buyer agrees to waive or to cause the waiver of all limitations as to pre-existing conditions waiting periods for such employees after the employee or his/her dependents satisfy any similar exclusion or waiting period under the Seller (with respect to the Business) or any Retail Company health care plans to satisfy fully the balance of the applicable time period for such exclusion or waiting period under the applicable Buyer plan. With respect to the calendar year in which the Closing Date occurs, all health care expenses incurred by any such employees and/or any eligible dependent thereof in the portion of the calendar year preceding the Closing Date that were qualified to be taken into account for purposes of satisfying any deductible or out-of-pocket limit under any Seller (with respect to the Business) or any Retail Company health care plans shall be taken into account for purposes of satisfying any deductible or out-of-pocket limit under the health care plan of Buyer for the plan year in which such calendar year ends.

(ii) With respect to post-retirement medical and life benefits, Buyer shall provide post-retirement medical and life benefits to every Transferred Employee who, as of the Closing Date, is (A) eligible to retire with post-retirement medical and/or life benefits or (B) eligible for post-retirement medical and/or life benefits but not eligible to retire with such benefits as of the Closing Date, provided that the Estimated Working Capital Payment has been adjusted to

provide Buyer with a credit equal to the amount of such benefits that have accrued, as calculated by Seller's actuary using actuarial assumptions approved, and subject to review and approval of such actuarial calculations, by Buyer, such approvals not being unreasonably withheld, with respect to such Transferred Employees on or prior to the Closing Date. Every other Transferred Employee shall receive the same benefits as those that may then be provided to similarly situated employees of the Buyer, as determined in the Buyer's sole discretion.

(iii) With respect to the Kinder Morgan Retirement Plan, Seller shall fully vest each Transferred Employee in his or her accrued benefit under such plan as of the date he or she becomes a Transferred Employee.

(iv) With respect to Seller Savings Plan, Seller shall fully vest each Transferred Employee in his or her account balance in the Seller Savings Plan as of the date he or she becomes a Transferred Employee. Seller has determined that each Transferred Employee shall have incurred a "severance from employment" under Code Section 401(k)(2)(B) for purposes of being eligible to receive or commence a distribution from Seller Savings Plan. Seller shall amend Seller Savings Plan to the extent necessary to permit all Transferred Employees who have outstanding loans under Seller Savings Plan as of the Closing Date to continue repayment of such loans in accordance with the repayment schedule of such loans via personal check.

(v) With respect to the Union Employees, prior to Closing, Seller agrees to cooperate and use its reasonable best efforts to, or assist Buyer to, obtain the consent and agreement of the CWA to Buyer's proposed changes to the benefit programs, policies and plans set forth in the CWA CBA. Seller and Buyer shall agree on the manner and process that such consent and agreement is to be obtained. Buyer's proposed changes shall provide for substantially comparable benefits as those presently provided for under the CWA CBA.

(e) Vacation. Subject to Buyer's vacation scheduling policy, between the Closing Date and the end of the calendar year in which the Closing occurs, Buyer shall permit all Transferred Employees to schedule and take the same number of days of vacation as they would have been eligible to take immediately prior to the Closing Date under Seller's vacation policy based upon the recognized credited service amounts of such Transferred Employees with Seller.

(f) No Solicitation of Seller's Employees. Subject to Section 7.3(c), for a period of twelve (12) months following the Closing Date, Buyer shall cause the Retail Companies to not, directly or indirectly, hire, retain, or attempt to hire or retain any employee of Seller or a Seller Affiliate listed on Schedule 7.3(f), or in any way interfere with the relationships between Seller, or a Seller Affiliate, and any of such employees.

(g) WARN, COBRA and Other Compliance.

(i) Seller shall be responsible and subject to liability, with respect to the Retail Companies, for performing and discharging all requirements under the

WARN Act and under applicable state and local Laws and regulations for the notification of any employees related to the Business of any "employment loss" within the meaning of the WARN Act which occurs on or prior to the Closing Date.

(ii) Seller shall be solely responsible for extending COBRA Continuation Coverage to any employees and former employees of Seller (with respect to the Business) or any Retail Company, or to any qualified beneficiaries of such employees and former employees, who incur a "qualifying event" (as that term is defined in Code Section 4980B(f)) on or before the Closing Date, including those for whom the Closing Date occurs during their COBRA election period.

(iii) Seller or its ERISA Affiliates shall pay to all Transferred Union and Transferred Non-Union Employees, all compensation, bonus, holiday compensation, workers' compensation or other employment benefits to which they are entitled under the terms of the applicable compensation or Seller or Retail Company benefit plans or programs.

(iv) Buyer shall be responsible, with respect to the Retail Companies, for performing and discharging all requirements under the WARN Act and under applicable state and local Laws and regulations for the notification of its employees of any "employment loss" within the meaning of the WARN Act which occurs subsequent to the Closing Date.

(v) Buyer is responsible for extending COBRA Continuation Coverage to all Transferred Union and Transferred Non-Union Employees, and qualified beneficiaries of such employees who incur a "qualifying event" (as that term is defined in Code Section 4980B(f)) subsequent to the Closing Date.

(h) Transition Compensation Arrangements. At the request of Buyer, Seller shall implement transition compensation arrangements, provided that, notwithstanding any termination of this Agreement, Buyer agrees to reimburse Seller for all costs associated with such arrangements.

(i) Transition Benefits Arrangements. At the request of Buyer, Seller will cooperate with Buyer in providing transition benefit plan coverage to the Transferred Employees for a reasonable period following the Closing and Buyer agrees to reimburse Seller for all costs associated with such coverage.

The provisions of this Section 7.3 shall not be construed as being for the benefit for any person other than the Parties hereto, and shall not be enforceable by persons other than such Parties (including the Transferred Union Employees and Transferred Non-Union Employees).

7.4 Public Announcements. None of Buyer, Seller, any Retail Company or any of their Affiliates shall issue any press release or public announcement concerning this Agreement or the transactions contemplated hereby without obtaining the prior written approval of the other Parties hereto, which approval will not be unreasonably withheld or delayed, unless, disclosure is

otherwise required by applicable Law or by the applicable rules of any stock exchange on which such Party or any of its Affiliates lists securities, provided that, to the extent required by applicable Law, the Party intending to make such release shall use its Reasonable Efforts consistent with such applicable Law to consult with the other Party with respect to the text thereof.

7.5 Supplemental Disclosure. Each Party agrees that, with respect to the representations and warranties of such Party contained in this Agreement, such Party shall have the continuing obligation until the Closing to supplement or amend promptly such Party's Disclosure Schedule with respect to any matter hereafter arising or discovered which, if existing or known at the date of this Agreement, would have been required to be set forth or described in such Party's Disclosure Schedules. The Party supplementing or amending its Disclosure Schedules (the "Disclosing Party") shall deliver a copy of the amendment or supplement (in either case, the "Supplemental Disclosure") to the other Party (the "Receiving Party"). Notwithstanding anything to the contrary in this Section 7.5, the delivery of any Supplemental Disclosure by the Disclosing Party shall not limit, modify or otherwise affect the remedies available hereunder, including any right to indemnification or the limitations applicable thereto, to the Receiving Party or the representations or warranties of, or the conditions to the obligations of, the Parties hereto.

7.6 Expenses. Except as otherwise expressly provided in this Agreement, all fees and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the Party incurring such fee or expense, whether or not the Closing shall have occurred, and any expenses incurred by the Retail Companies for the benefit of Seller, to the extent not paid prior to Closing, shall be included in the Working Capital for purposes of determining both the Estimated Working Capital Payment and the Final Working Capital Payment.

7.7 Excluded Assets.

(a) The transactions contemplated by this Agreement exclude, and prior to the Closing Date, Seller may cause the appropriate Retail Company (without any consent of, but with no economic (including Tax) cost to, Buyer) to transfer to Seller or any of its Affiliates the Contracts and other assets listed or described on Schedule 7.7 (the "Excluded Assets"). Notwithstanding anything to the contrary provided elsewhere in this Agreement, Seller makes no representations or warranties with regard to any of the Excluded Assets.

(b) Buyer acknowledges that Seller, between the time of execution of this Agreement and the Closing Date, will be taking various actions required to transfer and assign the Excluded Assets from the Retail Companies to Seller or a Seller Affiliate. Buyer shall use Reasonable Efforts to cooperate with Seller in effecting all required assignments, conveyances and other agreements required to transfer and assign the Excluded Assets to Seller or its designated Affiliates. If the transfer of any of the Excluded Assets requires the consent of any Third Party and such consent is not received prior to Closing, Buyer shall hold the Excluded Assets for the sole benefit of Seller, and Seller and Buyer shall cooperate and each shall use Reasonable Efforts to obtain such consents to the extent required of such Third Party without any economic (including Tax) cost to Buyer or the Retail Companies. If and when any such consents

are obtained, Buyer will transfer the applicable asset to Seller or its designated Affiliate. If any such consent cannot be obtained, Buyer shall cooperate in any reasonable arrangement designed to obtain for Seller without any economic (including Tax) cost to Buyer or the Retail Companies all benefits, obligations and privileges of the applicable asset, including, without limitation, possession, use, risk of loss, potential for gain and dominion, control and demand.

7.8 Company Guarantees and Credit Requirements. Buyer shall (i) use Reasonable Efforts to obtain the full and unconditional release of Seller and all Seller Affiliates from the Company Guarantees and satisfy all applicable credit requirements required by the counter parties to swaps and other derivatives which are held by any of the Retail Companies as of the Closing, and (ii) return or reimburse to Seller or its applicable Affiliates any cash deposits or substitute outstanding letters of credit of the Retail Companies (to the extent that there are not additional conditions imposed upon such replacement and that such substitute letters of credit may have the same durations and be in the same amounts as the replaced letters of credit), at or prior to the Closing (such items set forth in clause (ii), the "Credit Requirements").

7.9 Removal of Retained Marks and Change of Names. Retained Marks will appear on some of the assets of the Retail Companies, including on signage throughout the real property and pipeline rights of way of the Retail Companies, and on supplies, materials, stationery, brochures, advertising materials, manuals and similar consumable items of the Retail Companies. Buyer shall obtain no right, title, interest, license or any other right whatsoever to use the Retained Marks. Buyer shall, (a) within one-hundred eighty (180) days after the Closing Date, remove the Retained Marks from the assets of the Retail Companies, including signage on the real and personal property of the Retail Companies, and provide written verification thereof to Seller promptly after completing such removal and (b) within thirty (30) days after the Closing Date, return or destroy (with proof of destruction) all other assets of the Retail Companies that contain any Retained Marks that are not removable. Buyer will not conduct any business or offer any goods or services under the Retained Marks. Buyer will not send, or cause to be sent, any correspondence or other materials to any Person on any stationery that contains any Retained Marks or otherwise operate the Retail Companies in any manner which would or might confuse any Person into believing that Buyer has any right, title, interest, or license to use the Retained Marks. Within thirty (30) days after the Closing Date, Buyer shall change the name of any Retail Company including the word "Kinder Morgan" to a name excluding the word "Kinder Morgan" and cease all use of the former names.

7.10 Insurance. Buyer acknowledges that, at or promptly following the Closing, the insurance policies, surety bonds and performance bonds maintained by a Retail Company or by the Seller or a Seller Affiliate for the benefit of any of the Retail Companies shall be terminated or modified to exclude coverage of all of the Retail Companies, and, as a result, Buyer shall be obligated at or before Closing to obtain at its sole cost and expense replacement insurance and bonds, and including insurance or bonds required by any Third Party to be maintained by any of the Retail Companies. If required by Law or Contract, Buyer shall provide to Governmental Entities and Third Parties evidence of such replacement or substitute insurance coverage for the continued operations of the businesses of the Retail Companies following the Closing.

7.11 Non-Solicitation.

(a) For a period of twenty-four (24) months from and after the Closing Date, Seller shall not, and shall cause its Affiliates not to, directly or indirectly, own, manage, engage in, operate, control or participate in the ownership, management, operation or control of, any business, whether in corporate, proprietorship or partnership form or otherwise, engaged in a choice gas program in the jurisdictions in which the Business operates immediately prior to the Closing (a "Restricted Business"); provided, however, that the restrictions contained in this Section 7.11(a) shall not restrict the acquisition by Seller or any Seller Affiliate of a business in which a Restricted Business represents an immaterial portion of such acquired business.

(b) For a period of twelve (12) months from and after the Closing Date, Seller shall not, and shall cause its directors, officers, employees and Affiliates not to, directly or indirectly: (i) cause, solicit, induce or encourage any employees of any Retail Company to leave such employment or hire, employ or otherwise engage any such individual; or (ii) cause, induce or encourage any material actual or prospective client, customer, or licensor of any Retail Company (including any existing or former customer of any Retail Company and any Person that becomes a client or customer of any Retail Company after the Closing) or any other Person who has a material business relationship with any Retail Company, to terminate or modify any such actual or prospective relationship.

7.12 Cooperation with Financing; Preparation of Audited Financials. In order to assist with obtaining any third party debt and equity financing (the "Financing"), at Buyer's sole cost and expense, prior to Closing Seller and the Retail Companies shall provide such prompt assistance and cooperation as Buyer and its Affiliates may reasonably request, including (i) assisting in preparing any information memorandum or similar document or marketing material, and, cooperating with one or more arrangers and agents for the Financing, (ii) making senior management of Seller and the Retail Companies related to the Business reasonably available for customary syndication presentations and calls, lender or proposed financing source meetings and rating agencies presentations and (iii) cooperating with prospective lenders, equity investors and their respective advisors in performing their due diligence. In addition, prior to Closing, at Buyer's sole cost and expense, Seller and the Retail Companies shall provide such prompt assistance and cooperation as Buyer and its Affiliates may reasonably request in the preparation of audited consolidated financial statements for the Retail Companies and such other financial data of the type required by Regulations S-X and S-K under the Securities Act of 1933, as amended, in connection with a debt or equity offering.

7.13 Monthly Financial Statements. As soon as reasonably practicable, but in no event later than thirty (30) days after the end of each calendar month during the period from the date hereof to the Closing, Seller shall provide Buyer with an unaudited monthly financial report (such reports to be in the form prepared by Seller or the Retail Companies in the ordinary course of business consistent with past practice).

7.14 Merger of Rocky. Seller acknowledges that Buyer may elect to acquire Rocky through a merger of an Affiliate of Buyer with and into Rocky. If Buyer so elects, the Parties agree to amend this Agreement in such a manner as to accommodate such merger, provided that

the amendment shall not result in additional Liabilities (including Tax) of Seller or any Seller Affiliate.

ARTICLE 8
CONDITIONS TO OBLIGATIONS OF SELLER

The obligations of Seller to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment as of the Closing Date of each of the following conditions:

8.1 Accuracy of Representations and Warranties. All representations and warranties of Buyer contained in this Agreement shall be deemed to have been made again at and as of the Closing Date, and shall then be true and correct (except to the extent such representations and warranties expressly relate to an earlier date, and in such case, shall be true and correct on and as of such earlier date) except for such failure of representations and warranties to be true and correct (without regard to any qualifications with respect to Material Adverse Effect contained therein) that, individually or in the aggregate would not be reasonably likely to result in a Material Adverse Effect.

8.2 Performance of Covenants and Agreements. Buyer shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by it on or prior to the Closing Date, and all deliveries contemplated by Section 3.3 shall have been made.

8.3 HSR Act and Consents.

(a) All waiting periods (and any extensions thereof) applicable to this Agreement and the transactions contemplated hereby under the HSR Act and any applicable Mexico antitrust Laws shall have expired or been terminated.

(b) There shall have been obtained any and all other Governmental Approvals specified on Schedule 3.3(c).

8.4 Legal Proceedings. No preliminary or permanent injunction or other Order issued by a Governmental Entity, and no statute, rule, regulation, or executive order promulgated or enacted by a Governmental Entity, which restrains, enjoins, prohibits, or otherwise makes illegal the consummation of the transactions contemplated hereby shall be in effect.

ARTICLE 9
CONDITIONS TO OBLIGATIONS OF BUYER

The obligations of Buyer to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment as of the Closing Date of each of the following conditions:

9.1 Accuracy of Representations and Warranties. All representations and warranties of Seller contained in this Agreement shall be deemed to have been made again at and as of the Closing Date, and shall then be true and correct (except to the extent such representations and

warranties expressly relate to an earlier date, and in such case, shall be true and correct on and as of such earlier date) except for such failure of representations and warranties to be true and correct (without regard to any qualifications with respect to Material Adverse Effect contained therein) that, individually or in the aggregate would not be reasonably likely to result in a Material Adverse Effect.

9.2 Performance of Covenants and Agreements. Seller shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by it on or prior to the Closing Date, and all deliveries contemplated by Section 3.2 shall have been made.

9.3 HSR Act and Consents.

(a) All waiting periods (and any extensions thereof) applicable to this Agreement and the transactions contemplated hereby under the HSR Act and any applicable Mexico antitrust Laws shall have expired or been terminated.

(b) The Governmental Approvals of the Colorado Public Utilities Commission, the Nebraska Public Service Commission and the Wyoming Public Service Commission shall have been obtained with terms that are satisfactory to Buyer, in Buyer's good faith reasonable discretion. In addition, at such time that both Parties' conditions to Closing have either been satisfied or waived, the Wyoming and Nebraska rate cases shall have either been settled or sufficiently progressed to the good faith satisfaction of both Parties.

(c) There shall have been obtained any and all other Governmental Approvals, Material Permits and Third Party consents specified on Schedule 3.2(d); provided, however, that if any such approval, permit or consent is not obtained, this condition will be deemed satisfied if Buyer and Seller enter into other arrangements reasonably satisfactory to Buyer and Seller which result in the Retail Companies being in the same economic position as though such approval, permit or consent had been obtained.

9.4 Legal Proceedings. No preliminary or permanent injunction or other Order issued by a Governmental Entity, and no statute, rule, regulation or executive order promulgated or enacted by a Governmental Entity, which restrains, enjoins, prohibits, or otherwise makes illegal the consummation of the transactions contemplated hereby shall be in effect. In addition, there shall not be any action, suit, proceeding, or other investigation, instituted or commenced by, or settled with, any Governmental Entity that would, or would be reasonably likely to, result in the imposition of either (i) material limitations on the ability of Buyer to exercise customary rights of ownership in the Business; (ii) criminal sanctions on Buyer or any of its Affiliates arising from (A) the transactions contemplated by this Agreement; (B) actions of the Retail Companies; or (C) actions of the Seller or its Affiliates and imposed on Buyer or its Affiliates as a result of entering into this Agreement or the consummation of the transactions contemplated therein; (iii) criminal sanctions on the Retail Companies; or (iv) any material penalties, fines or orders of restitution on the Buyer (taking into account the consummation of the transactions contemplated by this Agreement) or to the Retail Companies.

9.5 Conveyance of Certain Assets and Contracts.

(a) The NewCo Contribution shall have been completed.

(b) Seller and its Affiliates shall have assigned to NewCo, or one of the other Retail Companies, the Contracts referenced on Schedule 9.5(b), which represent Contracts held by or in the name of Seller or any Seller Affiliate (other than a Retail Company) for the express benefit of the Business, as well as any Contracts entered into by Seller or any Seller Affiliate (other than the Retail Companies) in the ordinary course of business consistent with past practice, or with the prior consent of Buyer, for the express benefit of the Business between execution of this Agreement and the Closing.

(c) Seller and its Affiliates shall have assigned to NewCo, or one of the other Retail Companies, the hedging agreements referenced in Schedule 9.5(c) (the "Hedging Agreements") or shall have entered into other arrangements which result in the Retail Companies being in the same economic position as though the Hedging Agreements were assigned to NewCo or one of the other Retail Companies at the Closing.

Notwithstanding anything to the contrary in this Section 9.5, if substantially all of the assets to be transferred under the NewCo Contribution can be completed, then if any consent relating to the transfers referred to in this Section 9.5 is not obtained prior to Closing, the condition in Section 9.5 will be deemed satisfied if Seller offers to enter into other arrangements which result in the Retail Companies being in the same economic position as though the consent had been obtained.

ARTICLE 10
TERMINATION, AMENDMENT, AND WAIVER

10.1 Termination. Subject to the provisions of Sections 10.2 and 10.3 below, this Agreement may be terminated at any time prior to the Closing in the following manner:

(a) by mutual written consent of Seller and Buyer;

(b) by either Seller or Buyer, if any Governmental Entity with jurisdiction over such matters shall have issued an Order restraining, enjoining, or otherwise prohibiting the sale of the Equity Interests hereunder and such Order shall have become final and unappealable provided that such Party has satisfied its obligations under Section 7.2(a) in response to the actions or requests of such Governmental Entity; provided, however, that the right to terminate this Agreement under this Section 10.1(b) shall not be available to a Party if such Order was primarily due to the failure of such Party to perform any of its obligations under this Agreement;

(c) by either Buyer or Seller if the other Party breaches or fails to comply in any material respect with any of its representations, warranties, covenants or agreements in this Agreement; provided that the terminating Party must give the defaulting Party at least fifteen (15) days' prior written notice of such failure and the failure is not, or cannot be, cured before expiration of such period; or

(d) by either Seller or Buyer, if the Closing shall not have occurred on or before the date that is 9 months following the date hereof, but the right to terminate this

Agreement under this Section 10.1(d) shall not be available to a Party whose failure to fulfill any obligation under this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing to occur prior to such date.

10.2 Effect of Termination. If a Party terminates this Agreement under Section 10.1, then such Party shall promptly give notice to the other Party specifying the provision hereof pursuant to which such termination is made, and this Agreement shall become void and have no effect, except that the agreements contained in this Article 10, Article 13, Sections 7.3(h), 7.4 and 7.6 and the confidentiality provisions of Section 7.1(a), shall survive the termination hereof. Nothing contained in this Section 10.2 shall relieve either Party from liability for damages actually incurred as a result of any breach of this Agreement. No termination of this Agreement shall affect the obligations of the Parties pursuant to the Confidentiality Agreement, except to the extent specified therein.

10.3 Amendment. This Agreement may not be amended except by an instrument in writing signed by or on behalf of both Parties.

10.4 Waiver. Either Party may (i) waive any inaccuracies in the representations and warranties of the other contained herein or in any document, certificate, or writing delivered pursuant hereto or (ii) waive compliance by the other Party with any of the other Party agreements or fulfillment of any conditions to its own obligations contained herein. Any agreement on the part of a Party to any such waiver shall be valid only if set forth in an instrument in writing signed by or on behalf of such Party. No failure or delay by a Party in exercising any right, power, or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power, or privilege.

ARTICLE 11
TAX MATTERS

11.1 Tax Returns.

(a) Seller Group Return. Seller shall cause to be included in the consolidated federal income Tax Returns (and the state income Tax Returns of any state that permits consolidated, combined or unitary income Tax Returns, if any) of the Seller Group for all periods (or portions thereof) ending on or before the Closing Date, all Tax items of the Retail Companies which are required to be included therein, shall cause such Tax Returns to be timely filed with the appropriate Taxing Authorities, and shall be responsible for the timely payment (and entitled to any refund except as otherwise provided in Section 11.4) of all Taxes due with respect to the periods covered by such Tax Returns. The income of the Retail Companies will be apportioned between the period up to and including the Closing Date and the period after the Closing Date by closing the books of the Retail Companies as of the end of the Closing Date.

(b) Returns for Periods Ending on or Before the Closing Date.

(i) Seller shall prepare or cause to be prepared and timely file all Tax Returns of the Retail Companies that are due (taking into account timely extensions) on or before the Closing Date, and the Seller shall cause each of the

Retail Companies to timely pay all Taxes that are due with respect to such Tax Returns on or before the Closing Date.

(ii) Seller shall prepare or cause to be prepared and Buyer shall file or cause to be filed all Tax Returns for the Retail Companies for all periods ending on or prior to the Closing Date which are filed after the Closing Date and are not described in paragraphs (a) or (b)(i) above. Seller shall pay all Taxes owed by it in accordance with the procedures set forth in Section 11.1(d).

(c) Straddle Returns.

(i) With respect to any Tax Return covering a taxable period beginning on or before the Closing Date and ending after the Closing Date that is required to be filed after the Closing Date ("Straddle Period") with respect to any of the Retail Companies, Buyer shall cause such Tax Return to be prepared, shall cause to be included in such Tax Return all Tax items required to be included therein, and at least thirty (30) days prior to the due date (including extensions) of such Tax Return shall furnish a copy of such Tax Return to Seller. Buyer shall permit Seller to review and comment on each such Tax Return. Buyer shall timely file such Tax Return with the appropriate Taxing Authority, and shall be responsible for the timely payment of all Taxes due with respect to the period covered by such Tax Return. Seller shall pay all Taxes owed by it with respect to the portion of such Straddle Period ending on the Closing Date in accordance with the procedures set forth in Section 11.1(d).

(ii) To the extent permitted by applicable Law or administrative practice, (A) the taxable year of any Retail Company that includes the Closing Date shall be treated as closing on (and including) the Closing Date and (B) all transactions occurring after the Closing Date shall be reported on Buyer's consolidated United States federal income tax return to the extent permitted by Treasury Regulation Section 1.1502-76(b)(1)(ii)(B) and shall be similarly reported on other Tax Returns of Buyer or its Affiliates. In any case where applicable Law does not permit a Retail Company to treat the Closing Date as the last day of the taxable year or period, the portion of any Taxes that are allocable to the portion of the Straddle Period ending on the Closing Date shall be:

(1) in the case of Taxes that are imposed on a periodic basis or property Taxes or ad valorem Taxes, deemed to be the amount of such Taxes for the entire period multiplied by a fraction the numerator of which is the number of calendar days in the Straddle Period ending on (and including) the Closing Date and the denominator of which is the number of calendar days in the entire relevant Straddle Period; and

(2) in the case of Taxes not described in clause (1) (such as taxes that are either (x) based upon or related to income or receipts, or (y) imposed in connection with any sale or other transfer or assignment of property), deemed

equal to the amount that would be payable if the taxable year or period ended on the Closing Date.

(d) Payment of Taxes. Seller shall pay to Buyer the amount of Taxes of the Retail Companies owed by Seller pursuant to this Section 11.1 not later than five (5) days prior to the due date for the payment by the Retail Companies of such Taxes to the extent such Taxes are not reflected on the Effective Time Balance Sheet. No payment pursuant to this Section 11.1 shall excuse Seller from its indemnification obligations pursuant to Article 12 if the amount of Taxes as ultimately determined (on audit or otherwise) for the periods covered by such Tax Returns exceeds the amount of Seller's payment under this Section 11.1.

11.2 Section 338(h)(10) Election.

(a) Seller shall join Buyer in making an election under Section 338(h)(10) of the Code (and any corresponding elections under state, local, or foreign Tax Law) and, at Buyer's option, agrees to join Buyer in making an election under Section 338(h)(10) of the Code (and any corresponding elections under state, local, or foreign Tax Law) (collectively, the "Section 338(h)(10) Election") with respect to the purchase and sale of the Rocky Shares and the KNEI Shares, respectively, and Buyer and Seller shall cooperate in the completion and timely filing of such elections in accordance with the provisions of Treasury Regulation Section 1.338(h)(10)-1 (or any comparable provisions of state, local or foreign Tax Law). Except as otherwise specifically provided in this Section 11.2, Buyer shall be responsible for the preparation and timely filing of all forms necessary to effectuate the Section 338(h)(10) Election as prescribed by Treasury Regulation §1.338(h)(10)-1 (or any comparable provisions of state, local or foreign Tax Law).

(b) At the Closing, Seller shall deliver an executed IRS Form 8023 with respect to the Section 338(h)(10) Election for the Rocky Shares. Within ninety (90) days following the Closing Date, Seller shall deliver to Buyer a completed IRS Form 8883, allocating adjusted grossed-up basis (as defined in Treasury Regulation Section 1.338-5) among the assets of Rocky. Said IRS Form 8883 shall be prepared by Seller in accordance with the provisions of Section 338 of the Code and the Treasury Regulations thereunder. Buyer shall have the right to review the IRS Form 8883. If within thirty (30) days after receipt of such IRS Form 8883 Buyer notifies Seller in writing that it disagrees with the allocation of one or more items contained therein, Buyer and Seller shall negotiate in good faith to resolve such dispute. If Buyer and Seller fail to resolve such dispute within thirty (30) days, the dispute shall be resolved by the Independent Accountants. The decision of the Independent Accountants as to any disputed items shall be binding on Buyer and Seller. If Buyer does not respond within thirty (30) days of receipt of the IRS Form 8883 from Seller, or upon resolution of any disputed items, the allocation reflected on the IRS Form 8883 (as resolved, if applicable) shall be binding on the parties hereto. Buyer and Seller agree that they shall file (and shall cause Rocky to file with respect to its income Tax Returns for its taxable period ending on the Closing Date) all federal, state, local and foreign Tax Returns consistent with the Section 338(h)(10) Election and with said IRS Form 8883, and they further agree that they shall not, unless otherwise required by applicable Law or a final determination under Section 1313 of the Code or similar provision under foreign, state or local Law, take (and Buyer shall not permit the Retail Companies to take) any action that would be inconsistent with or would prejudice the Section 338(h)(10) Election.

(c) No later than ten (10) days following the notification by Buyer that it elects to make the Section 338(h)(10) Election for the KNEI Shares, Seller shall deliver an executed IRS Form 8023 with respect to the Section 338(h)(10) Election for the KNEI Shares. No later than twenty (20) days following such notification by the Buyer, Seller shall deliver to Buyer a completed IRS Form 8883, allocating adjusted grossed-up basis (as defined in Treasury Regulation Section 1.338-5) among the assets of KNEI. The remaining procedures of Section 11.2(b) (beginning with the third sentence) shall apply with respect to the Section 338(h)(10) Election for the KNEI Shares.

11.3 Consistency. Any Tax Return to be prepared pursuant to the provisions of Section 11.1(a), 11.1(b) or 11.1(c) shall be prepared in a manner consistent with practices followed in prior years with respect to similar Tax Returns, except for changes required by changes in applicable Law or fact.

11.4 Refunds. If after the Closing Date, Buyer or any Retail Company receives a refund or utilizes a credit of any Tax attributable to a taxable period (or portion thereof) ending on or before the Closing Date, Buyer shall pay to Seller within fifteen (15) days after such receipt an amount equal to such refund received or credit (or so much of such refund or credit as relates to the portion of the taxable period ending on or before the Closing Date) utilized, together with any interest received or credited thereon, except to the extent such refund or credit (i) is reflected on the Effective Time Balance Sheet or (ii) relates or is attributable to the carryback of any credit, loss, deduction or other Tax item arising in or attributable to any post-closing portion of a Straddle Period (determined in accordance with Section 11.1(c)) or any period beginning after the Closing Date (a "Post-Closing Period"), in which event Buyer shall be entitled to such refund or credit.

11.5 Access to Tax Records. Buyer, the Retail Companies and Seller shall cooperate fully, as and to the extent reasonably requested by the other Party, in connection with the filing of Tax Returns and any audit, litigation or other proceeding (each a "Tax Proceeding") with respect to Taxes. Such cooperation shall include the retention and (upon the other party's request) the provision of records and information which are reasonably relevant to any such Tax Proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Buyer and Seller agree (i) to retain all books and records with respect to Tax matters pertinent to the Retail Companies relating to any taxable period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by Buyer or Seller, any extensions thereof) of the respective taxable periods, and to abide by all record retention agreements entered into with any Taxing Authority, and (ii) to give the other party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other party so requests, the Buyer or Seller, as the case may be, shall allow the other party to take possession of such books and records. Buyer and Seller further agree, upon request, to use their best efforts to obtain any certificate or other document from any Governmental Authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the transactions contemplated hereby). Buyer and Seller further agree, upon request, to provide the other party with all information that either party may be required to report pursuant to Sections 6043 or 6043A of the Code and Treasury Regulations promulgated thereunder. Within fifteen (15) days of Buyer's request, Seller shall provide Buyer

with a good faith estimate, based on information available to and reasonably obtainable by Seller, of the COFL and/or CSLL required to be apportioned to KNEI pursuant to Treasury Regulation Section 1.1502-9(c)(2) as of the end of the month preceding the request.

11.6 Transfer Taxes. Except to the extent prohibited by Law, Buyer shall be responsible for the payment of all state and local transfer, sales, filing, recordation, use, stamp, registration or other similar Taxes resulting from the transactions contemplated by this Agreement. The Parties shall reasonably cooperate to minimize any such Taxes including, if applicable, preparing any certificates or other documents necessary to claim any reduction or exemption from such Taxes. If required by applicable Law, Seller shall collect from Buyer at Closing any transfer Taxes described in this Section 11.6. For the avoidance of doubt, any Taxes referred to in Section 12.1(a)(iii)(D) shall not be governed by Section 11.6.

11.7 Closing Tax Certificate. At the Closing, Seller shall deliver to Buyer a certificate (i) stating that it is not a foreign corporation, foreign partnership, foreign trust or foreign estate, (ii) providing its U.S. Employer Identification Number and (iii) providing its address, all pursuant to Section 1445 of the Code.

11.8 Loss Statement. Not later than ten (10) days following the filing of the Seller Group's federal income Tax Return for the taxable year that includes the Closing Date, Seller shall provide to Buyer a copy of the statement described in Treasury Regulation Section 1.1502-9(c)(2)(iv).

ARTICLE 12
INDEMNIFICATION

12.1 Indemnification.

(a) Seller's General Indemnity. From and after the Closing, subject to the other terms and limitations in this Article 12, Seller shall indemnify, defend and hold harmless the Buyer Indemnitees from and against any and all Losses incurred by any of the Buyer Indemnitees (i) that arise out of any breach of Seller's representations or warranties in this Agreement or any certificate or instrument delivered by Seller pursuant hereto, (ii) that arise out of any breach of the covenants or obligations of Seller under this Agreement, (iii) without duplication, for all Taxes, to the extent such Taxes are not reflected as a Liability on the Effective Time Balance Sheet, (A) imposed on any Retail Company relating or attributable to any period ending on or prior to the Closing Date (a "Pre-Closing Period") and, with respect to any Straddle Period, the portion of such Straddle Period deemed to end on and include the Closing Date (in the manner determined pursuant to Section 11.1(c)), (B) imposed on any Retail Company under Treasury Regulation Section 1.1502-6 (and all corresponding provisions of state, local or foreign Law) as a result of being a member of any federal, state, local or foreign consolidated, unitary, combined or similar group for any Pre-Closing Period, (C) attributable to the Section 338(h)(10) Election, or (D) relating to the sale of AOI Shares or GNN Shares pursuant to this Agreement, (iv) that result from or relating to any Liabilities incurred with respect to (A) any Benefit Plan or (B) any current or former employee of Seller or any Seller Affiliate in connection with their employment or termination of employment on or prior to the Closing (other than Liabilities with respect to such employees assumed by Buyer pursuant to

Section 7.3), (v) that arise out of (A) the *City of Fort Morgan v. KN Wattenburg Transmission*, District Court, Morgan County, Colorado Case No. 00CV61 litigation, and (B) the *211 E. Serapio Drive, Telluride, Colorado* litigation, (vi) that arise out of the Excluded Assets including, without limitation, from the transfer of such Excluded Assets by a Retail Company to Seller or a Seller Affiliate, (vii) that arise out of the dissolution of GNN Servicios, S. de R.L. de C.V., a limited liability company with variable interests formed under the laws of the Republic of Mexico, or (viii) that arise out of the non-compliance with respect to the required air permit associated with the Naturita Creek Compressor Station in Colorado, as further described on Schedule 4.21(a).

(b) Buyer's Indemnity. From and after the Closing, subject to the other terms and limitations in this Article 12, Buyer shall indemnify, defend and hold harmless the Seller Indemnitees from and against any and all Losses incurred by any of the Seller Indemnitees (i) that arise out of any breach of Buyer's representations or warranties in this Agreement or any certificate or instrument delivered by Buyer pursuant hereto, (ii) that arise out of any breach of the covenants or obligations of Buyer under this Agreement and (iii) that arise out of the Company Guaranties or the Credit Requirements.

(c) Limitations on Indemnity.

(i) None of the Buyer Indemnitees shall be entitled to assert any right to indemnification under Section 12.1(a)(i) for any individual breach, or group of breaches arising out of the same event, where:

(1) the Loss actually suffered by the Buyer Indemnitees relating thereto is less than $250,000 (the "Sub-Basket"); and

(2) the Loss related thereto is equal to or greater than the Sub-Basket, unless the aggregate amount of all such Losses actually suffered by the Buyer Indemnitees exceeds the Deductible Amount, and then only to the extent such Losses exceed, in the aggregate, the Deductible Amount.

In no event shall Seller ever be required to indemnify the Buyer Indemnitees for Losses under Section 12.1(a)(i), in any amount exceeding, in the aggregate, fifteen percent (15%) of the Base Purchase Price.

(ii) The foregoing provisions of Section 12.1(c)(i) shall not apply to any claim arising from a breach of Seller's representations or warranties set forth in Sections 4.1, 4.2(c), 4.2(d), 4.4, 4.11 or 4.20.

(iii) Except for items expressly covered by Section 12.1, Seller has no obligation for Losses or Liabilities, contractual or otherwise, that arise from the operation of the Business after the Closing.

(iv) The amount of any Loss for which a Buyer Indemnitee claims indemnification shall be reduced by: (A) any actual insurance proceeds with respect to a Loss; (B) the amount of such Loss, or the reserve therefore, reflected

as a Liability in the Estimated Working Capital Payment and the Final Working Capital Payment; and (C) the value of any net tax benefit actually realized (by reason of a Tax deduction, basis reduction, shifting of income, credits and/or deductions or otherwise) by Buyer in connection with, and in the taxable year of the Loss.

(d) WAIVER OF PUNITIVE OR CONSEQUENTIAL DAMAGES.

(i) NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT OR THE RELATED AGREEMENTS, BUYER SHALL NOT BE LIABLE TO THE SELLER INDEMNITEES FOR ANY EXEMPLARY, PUNITIVE, SPECIAL, INDIRECT, CONSEQUENTIAL, REMOTE, OR SPECULATIVE DAMAGES, EXCEPT TO THE EXTENT ANY SUCH DAMAGES ARE INCLUDED IN ANY ACTION BY A THIRD PARTY AGAINST A SELLER INDEMNITEE FOR WHICH SUCH SELLER INDEMNITEE IS ENTITLED TO INDEMNIFICATION UNDER THIS AGREEMENT.

(ii) NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT OR THE RELATED AGREEMENTS, SELLER SHALL NOT BE LIABLE TO THE BUYER INDEMNITEES FOR ANY EXEMPLARY, PUNITIVE, SPECIAL, INDIRECT, CONSEQUENTIAL, REMOTE OR SPECULATIVE DAMAGES, EXCEPT TO THE EXTENT ANY SUCH DAMAGES ARE INCLUDED IN ANY ACTION BY A THIRD PARTY AGAINST A BUYER INDEMNITEE FOR WHICH SUCH BUYER INDEMNITEE IS ENTITLED TO INDEMNIFICATION UNDER THIS AGREEMENT.

(e) Survival. All of the representations and warranties of the Parties set forth in this Agreement, and the obligations set forth in this Article 12, shall survive the Closing. Notwithstanding the foregoing sentence, after Closing, any assertion by any Person that Seller or Buyer is liable for indemnification under the terms of Section 12.1(a)(i) of this Agreement, must be made in writing and must be delivered to the indemnifying Party on or prior to the date that is fifteen (15) months after the Closing Date; provided, however, that any claim arising from a breach of Seller's representations or warranties set forth in Sections 4.1, 4.2(c), 4.2(d), 4.4, 4.11 or 4.20, must be delivered to Seller on or before the date that is sixty (60) days following the expiration of the applicable statute of limitations (including extensions thereof).

(f) Exclusive Remedy. The indemnification provisions of this Article 12 shall be the sole and exclusive remedy of each Party (including the Seller Indemnitees, the Buyer Indemnitees and the Retail Companies) after the Closing (i) for any breach of the other Party's representations and warranties contained in this Agreement or any certificate or instrument delivered pursuant hereto or (ii) otherwise with respect to this Agreement and the transactions contemplated hereby, excluding the Related Agreements and the transactions contemplated thereby.

12.2 Defense of Claims.

(a) Notice. If an Indemnitee receives notice of the assertion of any claim or of the commencement of any Third Party Claim with respect to which indemnification is to be sought from the Indemnifying Party, the Indemnitee will give such Indemnifying Party reasonable prompt notice thereof. However, the failure to give timely notice will not affect the rights or obligations of the Indemnifying Party except and only to the extent that, as a result of such failure, the Indemnifying Party was materially and adversely prejudiced. Such notice shall describe the nature of the Third Party Claim in reasonable detail and will indicate the estimated amount, if practicable, of the Loss that has been or may be sustained by the Indemnitee. The Indemnifying Party will have the right to participate in or, by giving notice to the Indemnitee, to elect to assume the defense of, any Third Party Claim at such Indemnifying Party's own expense and by such Indemnifying Party's own counsel, and the Indemnitee will cooperate in good faith in such defense at such Indemnitee's own expense.

(b) Opportunity to Defend. If within ten (10) days after an Indemnitee provides notice to the Indemnifying Party of any Third Party Claim, the Indemnitee receives notice from the Indemnifying Party that such Indemnifying Party has elected to assume the defense of such Third Party Claim, the Indemnifying Party will not be liable for any legal expenses subsequently incurred by the Indemnitee in connection with the defense thereof; provided, however, that such Indemnitee shall be entitled to participate in any such defense with separate counsel at the expense of the Indemnifying Party if (i) so requested by the Indemnifying Party to participate or (ii) in the reasonable opinion of counsel to the Indemnitee, a conflict or potential conflict exists between the Indemnitee and the Indemnifying Party that would make such separate representation advisable; and provided, further, that the Indemnifying Party shall not be required to pay for more than one such counsel for all Indemnitees in connection with any Third Party Claim. Without the prior written consent of the Indemnitee, which shall not be unreasonably withheld or delayed, the Indemnifying Party will not enter into any settlement of any Third Party Claim which would lead to Liability or create any financial or other obligation on the part of the Indemnitee for which the Indemnitee is not entitled to indemnification hereunder. If a firm offer is made to settle a Third Party Claim without leading to Liability or the creation of a financial or other obligation on the part of the Indemnitee for which the Indemnitee is not entitled to indemnification hereunder and the Indemnifying Party desires to accept and agree to such offer, the Indemnifying Party will give notice to the Indemnitee to that effect. If the Indemnitee fails to consent to such firm offer within ten days after its receipt of such notice, the Indemnitee may continue to contest or defend such Third Party Claim and, in such event, the maximum liability of the Indemnifying Party to such Third Party Claim will be the amount of such settlement offer, plus reasonable costs and expenses paid or incurred by the Indemnitee up to the date of such notice. Notwithstanding anything to the contrary in this Section 12.2, in respect of a Third Party Claim relating to Taxes for a Pre-Closing Period or Straddle Period, Seller will not consent to the entry of any judgment or enter into any settlement that, in either case, reasonably may have a Material Adverse Effect on any Retail Company in any Straddle Period or Post-Closing Period without the prior written consent of Buyer (which consent shall not be unreasonably withheld or delayed).

(c) Direct Claim. Any Direct Claim will be asserted by giving the Indemnifying Party reasonably prompt written notice thereof, stating the nature of such claim in

reasonable detail and indicating the estimated amount, if practicable. The Indemnifying Party will have a period of sixty (60) days within which to respond to such Direct Claim. If the Indemnifying Party does not respond within such sixty (60) day period, the Indemnifying Party will be deemed to have accepted such Direct Claim. If the Indemnifying Party rejects such Direct Claim, the Indemnitee will be free to seek enforcement of its rights to indemnification under this Agreement.

ARTICLE 13
MISCELLANEOUS

13.1 Notices. All notices, requests, demands, and other communications required or permitted to be given or made hereunder by either Party (each a "Notice") shall be in writing and shall be deemed to have been duly given or made if (i) delivered personally, (ii) transmitted by first class registered or certified mail, postage prepaid, return receipt requested, (iii) delivered by prepaid overnight courier service, or (iv) delivered by confirmed facsimile transmission to the Parties at the following addresses (or at such other addresses as shall be specified by the Parties by similar notice):

If to Buyer:

Aircraft Services Corporation
c/o GE Energy Financial Services, Inc.
120 Long Ridge Road
Stamford, Connecticut 06927
Attention: Alex Darden
Fax: 203-961-5818

with copies (which shall not constitute notice) to:

GE Energy Financial Services, Inc.
120 Long Ridge Road
Stamford, Connecticut 06927
Attention: General Counsel
Fax: 203-357-6632

Weil, Gotshal & Manges LLP
200 Crescent Ct., Suite 300
Dallas, Texas 75201
Attention: Michael A. Saslaw
Fax: 214-746-7777

If to Seller:

Kinder Morgan, Inc.
500 Dallas, Suite 1000
Houston, Texas 77002
Attention: General Counsel
Fax: 713-369-9410

with a copy (which shall not constitute notice) to:

Bracewell & Giuliani LLP
711 Louisiana, Suite 2300
Houston, Texas 77002
Attention: John M. McCrory
Fax: 713-222-3220

Notices shall be effective (i) if delivered personally or sent by courier service, upon actual receipt by the intended recipient, (ii) if mailed, upon the earlier of five days after deposit in the mail or the date of delivery as shown by the return receipt therefor, or (iii) if sent by facsimile transmission, when the answer back is received.

13.2 Entire Agreement. This Agreement, together with the Schedules, the Exhibits, the Related Agreements and the Confidentiality Agreement, constitute the entire agreement between the Parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, between the Parties with respect to the subject matter hereof. There are no restrictions, promises, representations, warranties, covenants or undertakings between the Parties, other than those expressly set forth or referred to herein or therein.

13.3 Binding Effect; Assignment; No Third Party Benefit. This Agreement shall be binding upon and inure to the benefit of the Parties and their successors and assigns. Neither this Agreement nor any of the rights, interests, or obligations hereunder may be assigned by either Party without the prior written consent of the other Party; provided, that, without the consent of Seller, but with prior notice to Seller, Buyer may assign all or any portion of its rights and obligations under this Agreement to one or more Affiliates of Buyer, so long as (i) GECC remains liable for any and all obligations hereunder of Buyer, and its successors and assigns, pursuant to the terms of the GECC guarantee, and (ii) if so requested by Seller, prior to such assignment, GECC executes and delivers to Seller a replacement guarantee in the form of the GECC guarantee, guarantying the obligations hereunder of such assignee. Except as provided herein, nothing in this Agreement is intended to or shall confer upon any Person other than the Parties, and their successors and assigns, any rights, benefits, or remedies of any nature whatsoever under or by reason of this Agreement.

13.4 Severability. If any provision of this Agreement is held to be unenforceable, this Agreement shall be considered divisible and such provision shall be deemed inoperative to the extent it is deemed unenforceable, and in all other respects this Agreement shall remain in full force and effect.

13.5 Governing Law; Consent To Jurisdiction.

(a) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO ITS CONFLICT OF LAWS RULES OR PRINCIPLES.

(b) THE PARTIES HEREBY IRREVOCABLY SUBMIT TO THE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK LOCATED IN THE BOROUGH OF MANHATTAN AND THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA LOCATED IN THE SOUTHERN DISTRICT OF NEW YORK OVER ANY DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY, AND EACH PARTY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH DISPUTE OR PROCEEDING SHALL BE HEARD AND DETERMINED IN SUCH COURTS. THE PARTIES HEREBY IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH THEY MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY BROUGHT IN SUCH COURT OR ANY DEFENSE OF INCONVENIENT FORUM FOR THE MAINTENANCE OF SUCH DISPUTE. EACH PARTY AGREES THAT A JUDGMENT IN ANY SUCH DISPUTE MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW.

13.6 Further Assurances. From time to time following the Closing, at the request of either Party and without further consideration, the other Party shall execute and deliver to such requesting Party such instruments and documents and take such other action (but without incurring any material financial obligation) as such requesting Party may reasonably request to consummate more fully and effectively the transactions contemplated hereby.

13.7 Disclosure Schedules. Certain information set forth in the Schedules is included solely for informational purposes, is not an admission of liability with respect to the matters covered by the information, and may not be required to be disclosed pursuant to this Agreement. The specification of any dollar amount in the representations and warranties contained in this Agreement or the inclusion of any specific item in the Schedules is not intended to imply that such amounts (or higher or lower amounts) are or are not material, and no Party shall use the fact of the setting of such amounts or the fact of the inclusion of any such item in the Schedules in any dispute or controversy between the Parties as to whether any obligation, item, or matter not described herein or included in a Schedule is or is not material for purposes of this Agreement.

13.8 Counterparts. This Agreement may be executed by the Parties in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement, or caused this Agreement to be executed by their duly authorized representatives, all as of the day and year first above written.

"SELLER"

KINDER MORGAN, INC.,
a Kansas corporation

By: David Kinder
Name: David Kinder
Title: Vice President

"BUYER"

AIRCRAFT SERVICES CORPORATION,
a Nevada corporation

By: _____
Name: _____
Title: _____

IN WITNESS WHEREOF, the Parties have executed this Agreement, or caused this Agreement to be executed by their duly authorized representatives, all as of the day and year first above written.

"SELLER"

KINDER MORGAN, INC.,
a Kansas corporation

By: _____
Name: _____
Title: _____

"BUYER"

AIRCRAFT SERVICES CORPORATION,
a Nevada corporation

By: _____
Name: Marguerite Catalano
Title: Vice President

ASSIGNMENT OF RIGHTS

THIS ASSIGNMENT OF RIGHT TO PURCHASE EQUITY INTERESTS (this "Assignment") is executed as of September 28, 2006, by Aircraft Services Corporation, a Nevada corporation (the "Assignor"), Source Gas LLC, a Delaware limited liability company ("OpCo 1"), and Source Gas Inc., a Delaware corporation and wholly-owned subsidiary of OpCo 1 ("OpCo 2"). Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Purchase Agreement (as hereinafter defined).

RECITALS

WHEREAS, pursuant to Section 13.3 of that certain Purchase and Sale Agreement, dated August 14, 2006, as amended, between Kinder Morgan, Inc., a Kansas corporation, and Assignor (the "Purchase Agreement"), Assignor possesses the right to assign all or any portion of its rights and obligations under the Purchase Agreement to one or more of its Affiliates;

WHEREAS, Assignor desires to assign and delegate its rights and obligations under the Purchase Agreement to OpCo 1 and OpCo 1 desires to acquire and assume from Assignor its rights and obligations under the Purchase Agreement;

WHEREAS, in addition, OpCo 1 desires to assign and delegate its right and obligation to purchase the Retail Services Shares, the KNEI Shares, the Gas Supply Shares, the AOI Shares, the GNN Shares and the Rocky Shares to OpCo 2 and OpCo 2 desires to acquire and assume from OpCo 1, the right to purchase the Retail Services Shares, the KNEI Shares, the Gas Supply Shares, the AOI Shares, the GNN Shares and the Rocky Shares (the "OpCo 2 Interests").

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in consideration of the mutual promises and covenants contained in this Assignment, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

1. Assignment and Assumption of Equity Interests.

(a) Assignment and Acceptance. Assignor hereby assigns and delegates to OpCo 1, in accordance with Section 13.3 of the Purchase Agreement, all of its rights and obligations under the Purchase Agreement and OpCo 1 hereby accepts and assumes Assignor's rights and obligations under the Purchase Agreement (the "Initial Assignment").

(b) Assumption of Obligations; Indemnification. To the extent that Assignor incurs any loss, damage, liability, claim, demand, action, judgment, execution, cost or expense (each, a "Loss"), as a result of or in connection with any obligations of Assignor of any kind arising out of, or required to be performed under, the Purchase Agreement, OpCo 1 acknowledges and agrees that it shall indemnify and hold harmless,

and defend Assignor, and any of its respective directors, officers, stockholders, employees and agents, from and against such Loss.

2. Subsequent Assignment and Acceptance of Certain Rights. Immediately following the Initial Assignment, OpCo 1 hereby assigns to OpCo 2 all of its rights and obligations under the Purchase Agreement solely as such rights and obligations relate specifically to the OpCo 2 Interests and OpCo 2 hereby accepts and assumes OpCo 1's rights and obligations under the Purchase Agreement solely as such rights relate specifically to such OpCo 2 Interests.

3. Successors and Assigns. This Assignment shall inure to the benefit of and be binding upon each of the parties hereto and their respective successors and assigns.

4. Governing Law. This Assignment shall be governed by and construed in accordance with the internal and substantive laws of New York and without regard to any conflicts of laws concepts which would apply the substantive law of some other jurisdiction.

5. Further Action. Each of the parties hereto agrees that it will, forthwith upon any request by the other party, cooperate fully in the preparation, execution, acknowledgment, delivery and recording of any agreements, instruments, memoranda or documents reflecting or in furtherance of any of the transactions contemplated by this Assignment.

6. Headings. Section headings contained in this Assignment are for reference purposes only and shall not affect the meaning or interpretation of this Assignment.

7. Counterparts. This Assignment may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Assignment as of the date first above written.

AIRCRAFT SERVICES CORPORATION

By: _____
Name: MARGUERITE CATANZARO
Title: VICE PRESIDENT

SOURCE GAS LLC

By: Source Gas Holdings LLC,
its sole member

By: Aircraft Services Corporation,
its sole member

By: _____
Name: MARGUERITE CATANZARO
Title: VICE PRESIDENT

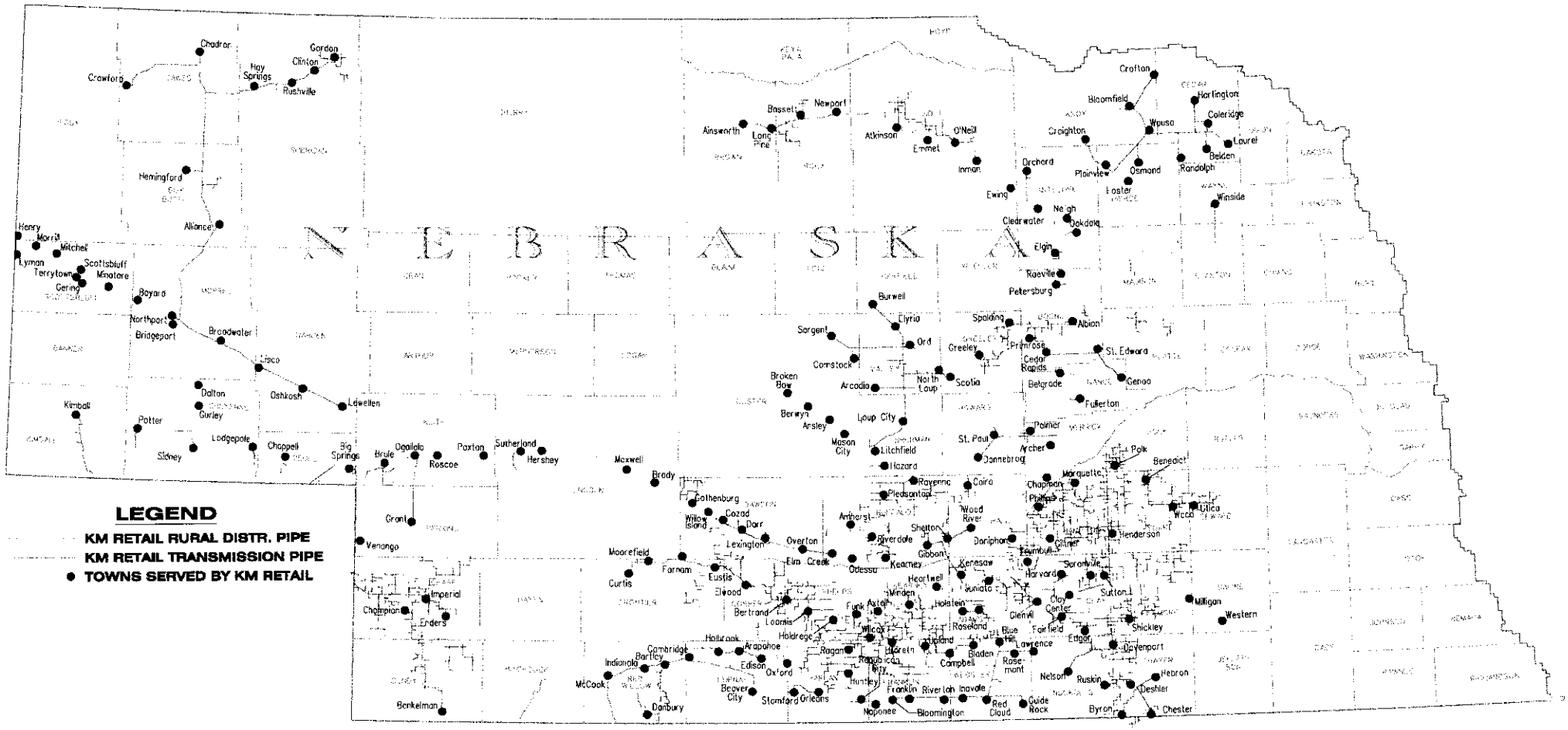
SOURCE GAS INC.

By: Source Gas LLC,
its sole shareholder

By: Source Gas Holdings LLC,
its sole member

By: Aircraft Services Corporation,
its sole member

By: _____
Name: MARGUERITE CATANZARO
Title: VICE PRESIDENT



LEGEND

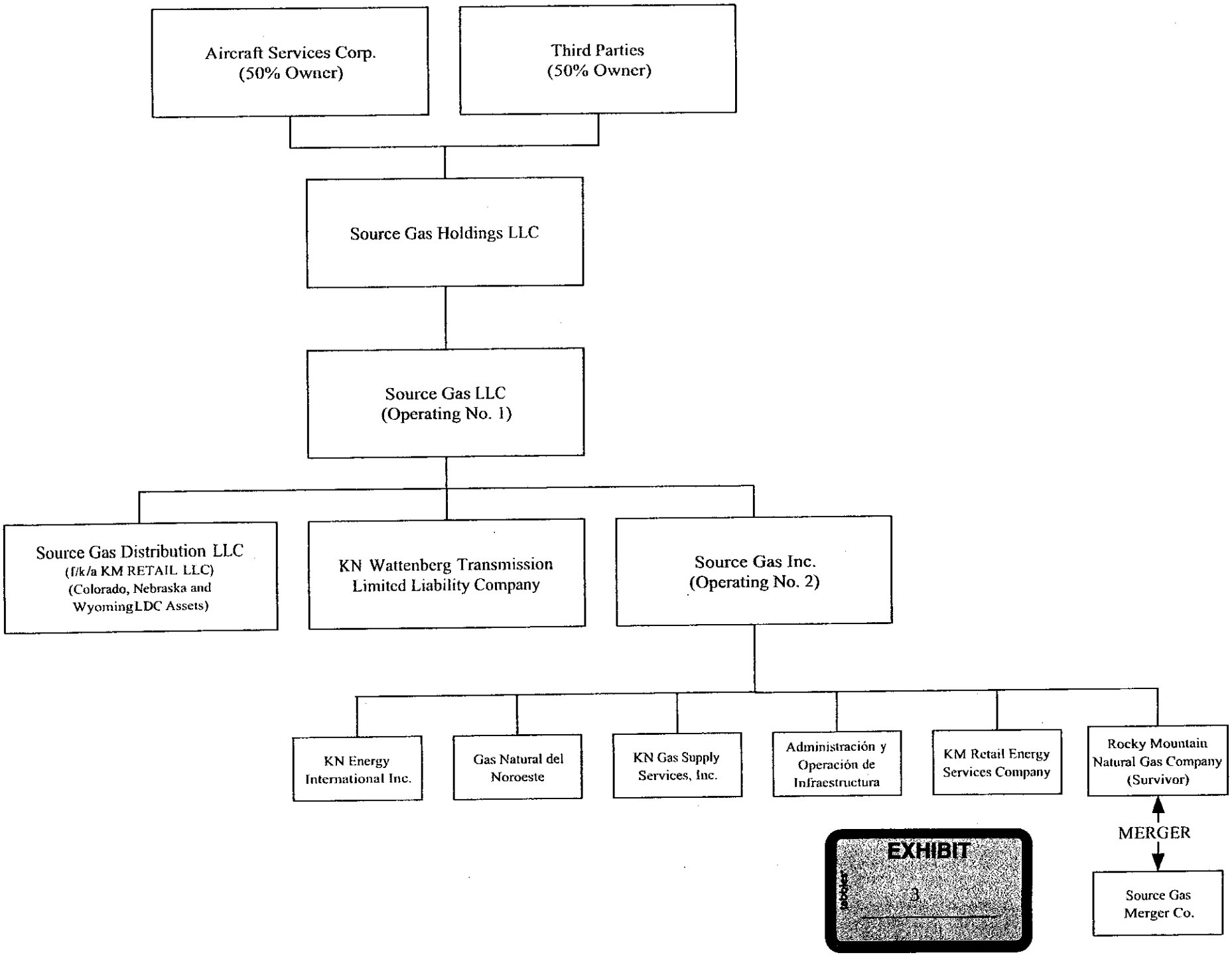
KM RETAIL RURAL DISTR. PIPE

KM RETAIL TRANSMISSION PIPE

● **TOWNS SERVED BY KM RETAIL**

EXHIBIT

2


Aircraft Services Corp.
(50% Owner)
Third Parties
(50% Owner)
Source Gas Holdings LLC
Source Gas LLC
(Operating No. 1)
Source Gas Distribution LLC
(f/k/a KM RETAIL LLC)
(Colorado, Nebraska and
WyomingLDC Assets)
KN Wattenberg Transmission
Limited Liability Company
Source Gas Inc.
(Operating No. 2)
KN Energy
International Inc.
Gas Natural del
Noroeste
KN Gas Supply
Services, Inc.
Administración y
Operación de
Infraestructura
KM Retail Energy
Services Company
Rocky Mountain
Natural Gas Company
(Survivor)
MERGER
Source Gas
Merger Co.
EXHIBIT
3

BEFORE THE PUBLIC SERVICE COMMISSION OF NEBRASKA

IN THE MATTER OF THE JOINT APPLICATION OF KINDER MORGAN, INC., KM RETAIL UTILITIES HOLDCO LLC, SOURCE GAS DISTRIBUTION LLC, SOURCE GAS HOLDINGS LLC AND SOURCE GAS LLC FOR APPROVAL OF (1) THE PROPOSED TRANSFER OF KINDER MORGAN, INC.'S NEBRASKA CERTIFICATE OF CONVENIENCE AND UTILITY ASSETS TO SOURCE GAS DISTRIBUTION LLC; AND (2) THE PROPOSED CHANGE OF CONTROL OF SOURCE GAS DISTRIBUTION LLC FROM KINDER MORGAN, INC. TO SOURCE GAS LLC.	**Docket NG-. _____** **PREPARED DIRECT TESTIMONY OF DANIEL E. WATSON**

DIRECT TESTIMONY OF DANIEL E. WATSON
ON BEHALF OF KINDER MORGAN, INC.

Q: What is your name?

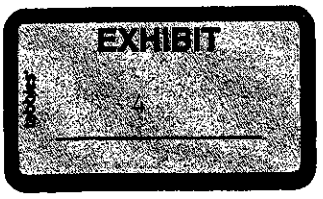
A: Daniel E. Watson.

Q. What is your current employment?

A. I am the President of the Retail Natural Gas division of Kinder Morgan, Inc. ("Kinder Morgan"). I oversee the company's business unit that provides natural gas distribution and related services to more than 240,000 residential, commercial and agricultural customers in Colorado, Wyoming and Nebraska.

Q. Please state briefly your professional experience and qualifications.

A. Since joining the company in 1990, I have held a variety of management positions including those pertaining to gas purchase contracts, marketing, supply and contract negotiations. Prior to joining Kinder Morgan, I worked for Amoco Production Company, where he served as Regional Gas Marketing Coordinator for the Denver Region.



Q. Would you briefly describe your educational background?

A. I am a graduate of South Dakota School of Mines, where I earned bachelor's degrees in geological and mining engineering. I serve on the board of directors for the Midwest Energy Association.

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing and testifying on behalf of Kinder Morgan and its affiliated companies identified in the Joint Application.

Q. Are you familiar with the statutory and regulatory requirements for obtaining Commission approval for the transfer of assets subject to the jurisdiction of the Commission and the transfer of certificates of convenience and?

A: Yes. I am familiar both with Neb. Rev. Stat. § 66-1828 and Neb. Rev. Stat. 66-1821 and the rules of the Nebraska Public Service Commission concerning natural gas utility regulation.

Q: Are you aware of, and have you provided, the information required by Neb. Rev. Stat. § 66-1828 and Neb. Rev. Stat. 66-1821 and the rules of the Nebraska Public Service Commission concerning natural gas utility regulation?

A: Yes, that information has been provided as part of the Joint Application. I am familiar with that application and have reviewed all of the information provided therein, which was compiled at my direction and under my supervision.

Q: Is all of that information true, accurate and correct to the best of your knowledge?

A: Yes, it is.

Q: What is the purpose of your testimony?

A. The purpose of my testimony is to support the Joint Application and to show that no changes in the natural gas public utility operations, services, facilities, tariffs, employees, or managers who report to me are expected to occur as a result of the proposed acquisition of those business operations by the Source Gas family of companies ("Source

Gas") as set forth and described in the Joint Application. My testimony will show that the proposed acquisition is not contrary to the public interest and will not adversely affect the ability of the gas utility operations to provide safe, reliable, and adequate service. Customers will benefit from a seamless transition and a continuity and consistency of service after the acquisition.

Q. Would you please summarize how the Source Gas acquisition will affect the management and operations of the existing Kinder Morgan gas utility businesses?

A. I do not expect any material change in current utility management and operations.

- The management of the utility businesses is not expected to change as a result of the Source Gas acquisition described in the Joint Application. The management will continue to be thoroughly qualified and experienced. I will continue as President of the utility businesses after the transaction, and expect that my utility management team under me will continue in their respective roles.
- There will be no change in the existing facilities or operations of the utility businesses as a result of the acquisition.
- The existing facilities and operations of the utility businesses will continue to be safe, reliable and adequate after the acquisition.
- There will be no change in gas supplies or upstream delivery arrangements as a result of the acquisition. The existing gas supply and upstream, delivery arrangements will continue to be safe, reliable and adequate after the acquisition.
- There will be no change in customer service or billing operations as a result of the acquisition. The existing customer service and billing operations will continue to reliably serve customers after the acquisition.
- Employee compensation and benefits after the acquisition are expected to be substantially comparable. Existing union contracts will continue to be honored.

- No changes in rates or tariffs will occur as a result of the acquisition and approval of the application in this proceeding. The existing rates and tariffs in effect at the time of the acquisition will continue in effect immediately after the acquisition is completed. Source Gas Distribution LLC will file a notice of tariff adoption and make such name change filings as necessary.
- There will be no change in the location of the utility offices or management at 370 Van Gordon Street, Lakewood, Colorado, as a result of the acquisition. The existing offices and management will continue to be located at that address in Lakewood, Colorado, after the acquisition.
- There will be no change in regulatory access to the books and records of the utility businesses as a result of the acquisition. The books and records will continue to be located at the company offices in Lakewood, Colorado, after the acquisition.
- The utility businesses will continue to have access to adequate capital after the acquisition.
- There will be no acquisition adjustment resulting from the acquisition.

Q: Turning to the application, would you explain the purpose of the Joint Application?

A: Yes, Kinder Morgan has entered into a Purchase and Sale Agreement ("PSA") that is intended to convey Kinder Morgan's natural gas distribution and intrastate natural gas pipeline public utility facilities, properties and other pertinent assets in Colorado, Wyoming and Nebraska to Source Gas. The PSA is an exhibit to the Joint Application. The PSA requires that the parties to the PSA obtain the necessary approvals to sell the assets and transfer certificates of public convenience and necessity from the various state regulatory commissions with jurisdiction, including the Nebraska Public Service Commission. The Joint

Application is intended to obtain the Commission's consent and approval of the transfer and acquisition.

Q: Structurally, how do the Applicants anticipate the transaction to occur?

A: Kinder Morgan currently owns and operates, as a retail division within Kinder Morgan, certain natural gas distribution assets that provide service to customers subject to the Commission's regulatory jurisdiction.. As the first step in the proposed acquisition, Kinder Morgan would transfer its public utility assets and business operations, including its Certificates of Public Convenience, to a new and separate subsidiary, which has been named Source Gas Distribution LLC, in anticipation of the transfer of ownership of that company to the Source Gas. The second step of the transaction would then be Kinder Morgan's transfer of its ownership of its subsidiary, Source Gas Distribution LLC, to Source Gas, as described in more detail in the Joint Application and in the testimony of Mr. James Burgoyne of GE Energy Financial Services ("GEEFS").

Q. Who is KM Retail Utility Holdco LLC?

A. KM Retail Utility Holdco LLC ("KMRUH") is a holding company created by Kinder Morgan to hold its natural gas public utility companies after completion of a proposed management led buy-out transaction, which is the subject of a separate application to the Commission. If the Source Gas acquisition proposed in this proceeding closes before the buy-out transaction, then KMRUH will be dissolved as unnecessary. However, if the Source Gas acquisition has not closed at the time the buy-out transaction is closed, Source Gas Distribution LLC will be held by KMRUH under Kinder Morgan.

Q. Why is KMRUH an applicant in this proceeding?

A. KMRUH is an applicant simply to cover the possibility of the buy-out transaction occurring first, in which case KMRUH would be the actual direct owner of the public utilities, with Kinder Morgan being the indirect owner, and KMRUH would in that case want authority from the Commission to transfer its ownership

of the public utilities to Source Gas, just as Kinder Morgan is requesting in the Joint Application.

Q. How do you intend to manage the pubic utility business after the acquisition by Source Gas?

A. I will continue to supervise the management positions that report directly to me at the present time. Also, additional persons will be reporting to me, or to my managers.

Q. What areas of utility operations presently report directly to you as President of the Kinder Morgan's retail business operations?

A. The Kinder Morgan retail management team that presently reports to me includes managers responsible for the following areas: distribution operations, finance/accounting, gas supply, risk management, transportation services/business development, and communications.

Q. Are there certain business functions presently provided by Kinder Morgan corporate shared services?

A. Yes. Kinder Morgan corporate shared services group presently provides the following functions: information technology, human resources, procurement/administration, tax, environmental health and safety, pipeline operations, legal and regulatory services. These functional services currently report to me as well as other Kinder Morgan business receiving services. After the Source Gas acquisition, persons who will have responsibility for these areas will be employed directly by the company and will report directly to me or to my managers. Some of these functional services will continue to be provided by Kinder Morgan for a limited period after closing pursuant to a transition agreement to the extent necessary to assure a smooth transition.

Q: How will the proposed acquisition by Source Gas impact service to customers?

A: The acquisition will be seamless to customers. They will not see any adverse impacts. Utility services and operations will continue to be conducted in the ordinary course of business, consistent with past practices. In addition, Kinder Morgan has agreed to a one-year transition period to assist in the transition. Following the closing, the operations of the retail and intrastate pipeline entities will continue just as before.

Q. How is this acquisition different from many other utility acquisitions and mergers?

A. Unlike many other acquisitions and mergers, the acquisition proposed in this proceeding does not involve the coming together of two utility companies. Source Gas and GE EFS do not presently own or operate any local distribution company public utilities. Therefore, the typical issues and challenges of meshing together two existing utility businesses are not present. There are no issues regarding the combining of operations, administration, information and billing systems, utility management, employees, offices, equipment, etc. There are no cost cutting actions or personnel reductions planned. There are no synergies that must be effected in order to drive financial results. The managers of GEEFS have made it clear to me that they intend for me and my team to continue running the business, and that continuity of the retail employees and managers was an important consideration in the acquisition.

Q. Will Source Gas rely on GEEFS or other affiliates to provide business services?

A. No. Source Gas will be a stand-alone business operation.

Q. Are any corporate overhead allocations to Source Gas anticipated?

A. No.

Q: What, if any, changes will customers see as a result of this transaction?

A: Other than the fact that the utility's name and logo will be different, customers should see no changes. The customer service center, for example, will have the same local or toll free number and the billing operation will remain exactly the

same. Safety manuals, training, standards and procedures will be exactly the same. Existing gas supply and other agreements will remain in place. The transition will be seamless. There will be no change or disruption in service.

Q: Will tariffs change as a result of the acquisition?

A: There will be no substantive changes. Other than filings to change the name, the tariff rates and provisions will not change as a result of the transaction. Source Gas Distribution LLC will adopt all of the existing tariffs, including all of the rules, regulations and charges then in effect.

Q: How will you notify customers about the acquisition?

A: We will have a bill insert. We also anticipate informing customers and the general public through mass media.

Q: Could you give us some indication of the size of the work force that will exist after the acquisition?

A: Yes, there are approximately 465 employees that are currently dedicated to working for the retail and intrastate natural gas operations which will be acquired by Source Gas. These employees are expected to become employees of Source Gas. In addition, we anticipate there will be approximately another two dozen employees currently performing shared services out of Kinder Morgan's corporate services group, who will join Source Gas and work exclusively for the retail and intrastate operations.

Q: Will employee benefits and wages be comparable?

A: Yes. Source Gas will endeavor to provide the same or substantially the same employee benefits, retirement, incentives and wages to assure continuity of service.

Q: Where will the utility's headquarters be located?

A: Source Gas will lease space in our current office building in Lakewood, Colorado where the majority of our home office employees currently work. All of the

books and records of the utility operations will continue to be located there along with the senior management.

Q: Do you anticipate that certain tasks will need to be contracted out?

A: Certain tasks such as customer call center and billing services are presently contracted out to third party providers, and that is expected to continue. There will also be some aspects of the retail operations that will continue to be handled on a contract basis with Kinder Morgan after the Source Gas acquisition. Pipeline gas control and scheduling, for example, which is presently handled by the gas control center in Lakewood, is expected to continue to be provided by Kinder Morgan under contract for a period of time to ensure a smooth and efficient transition. Over time, it is expected to be integrated into Source Gas and the contract would be terminated. Other physical items, such as certain microwave towers and antennas necessary to maintain the same level of service will probably be leased for an extended period of time. We will continue to assess various areas and functions to determine where it makes sense to do it internally versus outsourcing. For the majority of functions, we expect to be performing them internally. As always we will continue to provide safe and reliable service to our customers in an efficient and cost effective manner. The bottom line is that service will not be adversely impacted or disrupted.

Q: What will be your position with Source Gas Distribution, LLC?

A: I will serve as President and CEO of Source Gas Distribution, LLC.

Q: What authority will you and your management team have at Source Gas?

A: We will have full authority to manage the retail operations. I will report to a board of directors. GE EFS is making an investment in the retail operations of Kinder Morgan as part of its long term plan to invest in high quality energy businesses and assets. It is a testament to the efficient operation and outstanding work force we now have that GEEFS chose to make its platform investment in this sector of the energy business in us. While GEEFS is interested in the growth

and success of the retail operation, it is looking to this management team to make that happen.

Q: Will the organization of Source Gas provide ring fencing protections?

A: Yes. Those are described in more detail in the Verified Joint Application and in the testimony of Mr. Burgoyne.

Q: Kinder Morgan has recently announced a management led buy out transaction. How does that transaction impact this proceeding and the Source Gas acquisition?

A: They are completely separate and independent transactions. A separate application is being filed with this Commission concerning the management buy out transaction. While both transactions are expected to occur, the timing and closing of each transaction are unknown and uncertain at this point. Therefore, regulatory approval is being requested for both transactions from each state commission (Colorado, Nebraska, and Wyoming) as well as from other governmental authorities. If the Source Gas acquisition were to receive all necessary approvals and all conditions were met such that its closing were to occur first, then Commission approval of the buy out transaction, if not already obtained, would become unnecessary. On the other hand, if the buy out transaction were to receive all necessary approvals and all conditions were met such that its closing were to occur first, the first step of transferring Kinder Morgan's gas distribution assets to a subsidiary would have been approved, and the Commission would then need only proceed to approve the acquisition of Source Gas Distribution LLC.

Q. Does the Source Gas acquisition satisfy applicable standards for Commission approval?

A. Yes it does for all of the reasons stated in my testimony, the testimony of Mr. Burgoyne, and the Joint Application.

Q. Have you reviewed the statements made in the Joint Application and Exhibits that are attached to the Joint Application?

A. Yes, I am familiar with the statements in the Joint Application and with Exhibits 1 through 5 to the Joint Application. The facts stated in the Application are true and correct, and the Exhibits attached thereto are true and correct copies of the pertinent business records..

Q. Does that conclude your prepared direct and answering testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION OF NEBRASKA

IN THE MATTER OF THE JOINT APPLICATION OF KINDER MORGAN, INC., KM RETAIL UTILITIES HOLDCO LLC, SOURCE GAS DISTRIBUTION LLC, SOURCE GAS HOLDINGS LLC AND SOURCE GAS LLC FOR APPROVAL OF (1) THE PROPOSED TRANSFER OF KINDER MORGAN, INC.'S NEBRASKA CERTIFICATE OF CONVENIENCE AND UTILITY ASSETS TO SOURCE GAS DISTRIBUTION LLC; AND (2) THE PROPOSED CHANGE OF CONTROL OF SOURCE GAS DISTRIBUTION LLC FROM KINDER MORGAN, INC. TO SOURCE GAS LLC.	)))))))))))))	Application No. _____

DIRECT TESTIMONY OF JAMES F. BURGOYNE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is James F. Burgoyne. My business address is 120 Long Ridge Road, Stamford, CT, 06927.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by GE Energy Financial Services, Inc. ("GEEFS") as a Managing Director.

Q. PLEASE BRIEFLY DESCRIBE YOUR EMPLOYMENT AND EDUCATIONAL BACKGROUND.

EXHIBIT 5

A. I am currently the head of the Diversified Energy commercial unit within GEEFS. My unit has invested in partnerships producing more than 140 million cubic feet of natural gas and 31,000 barrels of oil per day and managing several thousands of miles of natural gas pipelines in North America. I have been the head of this unit since it was formed in 2004. Prior to this position, I was a Managing Director with GE Structured Finance's global energy team, where I was responsible for client development and the origination of business opportunities with U.S. energy companies domestically and internationally. Before joining GE in 1997, I was an Executive Director at SBC Warburg. My responsibilities there included advising clients in the natural resource sector on corporate finance, mergers and acquisitions, and capital markets. I have a Masters degree in Management from the Kellogg Graduate School of Management, Northwestern University and a Bachelors degree in Commerce from McGill University.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A. GEEFS respectfully requests that the Commission approve the proposed acquisition of Kinder Morgan's retail natural gas local distribution company ("LDC") assets, along with certain other regulated assets by the Source Gas family of companies (which I will collectively refer to as the "Source Gas Companies") as set forth and described fully in the Application. This proposed acquisition is in the public interest. While the local distribution company will

have a new name (Source Gas Distribution, LLC), we expect to retain almost all of the current managers and employees. Thus, customers will continue to enjoy high-quality, reliable service. The rates, terms and conditions of service set forth in the tariffs of the Kinder Morgan utility operations being acquired will be adopted in total, so the customers will continue to enjoy the reasonably priced natural gas service they have come to expect. Further, we do not intend to seek to recover either the transaction or transition costs associated with this acquisition. Finally, ownership of these utility operations by the Source Gas Companies will add value to customers because of GEEFS's energy industry experience and strong desire to grow this natural gas LDC business.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. To demonstrate why this acquisition should be approved, my testimony will begin by describing GEEFS and the relationship between GEEFS and Source Gas. I will then briefly discuss the structure of the proposed acquisition. Next, I will explain GEEFS's interest in acquiring Kinder Morgan's utility operations and businesses in Colorado, Nebraska, and Wyoming. Finally, I will talk about Source Gas' plans for the future, including how we intend to manage the businesses and ensure that we bring value to the customers.

Q. PLEASE DESCRIBE GEEFS.

A. GEEFS is a wholly-owned subsidiary of the General Electric Company ("GE"). GE operates many businesses, including power, aviation, entertainment, medical

services and also consumer and commercial financing. Indeed, the financing business at GE accounts for almost half of the net income of the company. GEEFS has been in existence in one form or another for nearly 30 years and is the entity through which GE makes all its financial investments in the energy industry. Currently, GEEFS has in excess of $13 billion dollars of investment in a wide variety of energy businesses and assets. For example, GEEFS owns electric power plants, electric transmission systems, natural gas pipelines, natural gas gathering and processing systems, oil and gas reserves, and water and wastewater systems.

Q. WHAT IS THE RELATIONSHIP BETWEEN GEEFS AND THE SOURCE GAS COMPANIES?

A. GEEFS is providing a substantial share of the capital to consummate the proposed transactions between Kinder Morgan and the various Source Gas Companies.

Q. HOW DOES GEEFS TYPICALLY MAKE ITS INVESTMENTS?

A. One of the key distinctions between GEEFS and other financial or investment companies is that we invest our own capital rather than simply raise money from equity funds or outside equity investors to invest on their behalf. Therefore, we are not under pressure to quickly return cash to third-party investors. GEEFS is part of GE's 100-year tradition. As such, we are long-term investors looking for stable, growing assets that have value over a long period of time.

Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED ACQUISITION?

A. As a result of Kinder Morgan's decision to refocus its business, Kinder Morgan has entered into a Purchase and Sale Agreement, pursuant to which it will sell, among other things, its utility businesses to certain of the Source Gas Companies. The cost to acquire Kinder Morgan's utility operations and businesses in Colorado, Nebraska, and Wyoming and other assets is just over $700 million dollars.

The sale and transfer will be effectuated through a series of transactions culminating in the ultimate ownership of the Kinder Morgan's utility businesses by Source Gas Holdings, LLC through its wholly-owned subsidiaries, Source Gas LLC and another Source Gas entity not subject to this Commission's jurisdiction. Exhibit 3 to the parties' Joint Application filed in this proceeding sets forth the corporate structure that has been created for the purpose of acquiring and holding the various assets.

More specifically, however, heretofore, Kinder Morgan's existing retail local distribution facilities and operations in Colorado, Wyoming and Nebraska have been performed as part of a business unit of Kinder Morgan Inc. (known as KM Retail), and not as a separate stand-alone entity. In order that such facilities and operations may be sold, the transaction contemplates that Kinder Morgan will transfer these retail facilities and operations into a separate legal entity known as Source Gas Distribution, LLC. Kinder Morgan will then sell 100% of its ownership interest in this new Kinder Morgan entity to Source Gas LLC, as well as Kinder Morgan's ownership interest in other retail entities not subject to this Commission's jurisdiction.

I note that up to a 50% interest in Source Gas Holdings, LLC may be offered to a partner or partners, the identity of which has not yet been determined. Any such partner(s) will, however, share GEEFS's investment values and philosophy.

Q. WILL THE SOURCE GAS COMPANIES' UTILITY OPERATIONS BE INDEPENDENT FROM GEEFS?

A. Yes. Source Gas Distribution will be operated as a separate, distinct corporate entity. There is no intention to consolidate the Source Gas Companies with GE or GEEFS. This is consistent with our general practice to make all of our investments discrete, stand-alone entities, in which we inject the capital and then oversee a stand-alone management team through board representatives and other appropriate corporate governances. Our strategy is to look to the expertise of people in whom we invest to manage the business. As indicated earlier, in general our expectation is that the current team will continue to operate and grow the utility operations successfully.

Q. WILL THE UTILITY ENTITY BE FINANCIALLY SOUND?

A. Yes. In the end, our intention is to have a utility holding company structure that is characterized by an investment grade credit rating consistent with utility holding companies within a comparable peer group. GEEFS is simply not interested in trying to over-lever the utility operations thus weakening their financial profile. Further, while our parent company, GE, will not guarantee the

utility debt, the fact that GE, a AAA-rated entity, is indirectly investing in the Source Gas Companies is something that often gives investors quite a bit of comfort because of its successful business track record. In short, GEEFS's long-term investment philosophy, coupled with its significant financial resources will create a favorable environment in which the management of Source Gas Distribution has an opportunity to access capital for growth and expansion across their respective service areas.

Q. WHY IS IT IMPORTANT FOR THE UTILITY OPERATIONS TO BE FINANCIALLY SOUND?

A. GEEFS's goal is to grow this utility business platform, and a basic business reality is that you cannot grow without a strong and appropriate capital structure. Again, our intent is that this utility platform will be a very stable investment and that it will grow and prosper.

Q. WHY DOES GEEFS WANT TO ACQUIRE THESE PARTICULAR NATURAL GAS LDC ASSETS?

A. GEEFS has identified the energy industry generally and the natural gas distribution business specifically, as a preferred area for investment under a long-term, buy and hold philosophy that looks for stable investments that will provide opportunities for a fair and reasonable return on the investment. At GEEFS, we are not looking to make speculative investments. Rather, we are looking for assets that have long-term value, provide good growth prospects and

that offer valuable services to customers. Further, we look for businesses that work in constructive environments with all of their stakeholders, including customers, competitors, and regulators. As GEEFS undertook to identify investment opportunities in the local distribution segment of the industry, the utility assets of Kinder Morgan stood out as meeting GEEFS's investment objectives.

Q. DOES GEEFS CURRENTLY OPERATE ANY OTHER NATURAL GAS LDCs?

A. No. However, a natural gas LDC is a great complement to what we do today. For example, GEEFS has substantial electric and gas transmission assets both in the United States and internationally. We also own or control thousands of miles of gas pipelines as well as gas production and gathering systems.

Q. MOVING TO A NEW TOPIC, HOW DOES GEEFS INTEND TO MANAGE THE NEW UTILITY OPERATIONS?

A. This is discussed in Dan Watson's testimony as well, but the short answer is that we expect the utility operations to continue to operate essentially the same as they do today. Again, at its core, GEEFS's investment strategy is one of buy and hold. As a result, GEEFS has no plans to change in any material way the management of the various entities. To the contrary, to a very significant degree, that stable, extremely well qualified management, is what attracted GEEFS to this deal in the first place. Thus, it will essentially be business as

usual for the entities going forward. This high level of stability will undoubtedly inure to the benefit of the customers, the employees, the relevant municipalities and even the regulators. Having said that, GEEFS will create a board of directors for the utility businesses, which will provide oversight and strategic guidance to the utilities' management team, including Dan Watson and his colleagues so that they can grow this business both in terms of improving how the utilities serve their current customers and looking for opportunities to expand the business down the road.

Q. WILL THE PROPOSED TRANSACTION HAVE ANY EFFECT ON THE FUNDAMENTAL BUSINESS OPERATIONS FOR THE UTILITIES?

A. No. More specifically, with the minor exception of a name change, it is intended to be business as usual when it comes to functions such as gas supply contracting and management, system operation and maintenance activities, safety and service reliability, customer service functions, billing operations, and regulatory relationships, to name a few. It is likewise intended to be business as usual for the work force in that there is no reduction in work force contemplated, nor is it anticipated that there will be any material change to the current employee benefits. All existing union agreements will likewise continue in place.

The proposed transaction will also be all but seamless to the Commission, its staff and other regulatory stakeholders, with the Commission continuing to exercise the same degree of regulatory oversight over the subject utility operations as it does today. The books and records of Source Gas Distribution

will continue to be located in Lakewood, Colorado, as will the corporate headquarters of Source Gas Distribution. In addition, Source Gas Distribution will adopt all of the tariffs setting forth the rates, charges, rules and regulations on file with and as approved by the Commission for Kinder Morgan Retail immediately prior to closing of the proposed transactions, with the limited exception that a name change from Kinder Morgan to Source Gas Distribution will be required.

Q. WILL THE UTILITIES CONTINUE TO STRIVE TO MAINTAIN STABLE AND REASONABLE GAS SUPPLY COSTS?

A. Yes. One of our key objectives will be to continue to provide safe and reliable service at stable and reasonable rates to the utility customers. Accordingly, I expect that Dan Watson and his colleagues will follow prudent and reasonable gas supply planning and portfolio management practices to this end through the continuation of the Choice Gas Program which has been in effect since 1998 in Nebraska. Finally, I am confident that Dan will continue to work diligently to maintain adequate gas delivery capacity throughout the utility service territory.

Q. DOES GEEFS INTEND THAT THE UTILITIES WILL SEEK TO RECOVER THE TRANSACTION OR TRANSITION COSTS ASSOCIATED WITH THIS DEAL?

A. No. We have no intention of seeking to recover our or the utilities' transaction costs such as attorney and accountant fees from the utility's customers. Also, we

do not anticipate that the utilities' transition costs would be included in a test period in a future-rate case. As such, we do not intend to seek to recover those costs from customers either.

Q. WHAT ARE GEEFS'S HOPES FOR THE FUTURE OF THESE UTILITIES?

A. Our charge is to put GE's substantial capital to work profitably in businesses with which we are comfortable. We firmly believe that Kinder Morgan's utility operations in Colorado, Nebraska, and Wyoming have a strong management team, attractive service territories, and ample opportunities for growth. As such, we look forward to working with Dan and his team, our customers, the Commissions and their staffs, and other stakeholders to successfully manage and grow these businesses.

Q. FINALLY, DOES THE PROPOSED TRANSACTION SATISFY THE COMMISSION'S APPLICABLE STANDARD OF REVIEW?

A. Yes. The proposed Transaction is consistent with the public interest and will not adversely affect the retail utility's ability to serve its ratepayers. Customers will continue to enjoy the high-quality, reasonably priced service they have come to expect. But what is more, they will benefit from the additional expertise and resources that the Source Gas Companies and GEEFS can bring to the table.

Q. PLEASE SUMMARIZE WHY THE PROPOSED TRANSACTION SHOULD BE APPROVED?

A. First, while Kinder Morgan has built and operated safe and reliable natural gas systems from which they have provided reasonably priced service for several decades, today, that segment of Kinder Morgan's operations constitutes less than 7% of its total earnings in 2005 and Kinder Morgan has determined to exit that business.

The Source Gas Companies, on the other hand, through the substantial investment by their affiliate, GEEFS, have determined that the local distribution utility business represents a tremendous investment opportunity, and in that regard, anticipate using the acquisitions that are the subject of this application as the platform upon which to grow. In short, Source Gas Distribution is intended to be a strong player in the Nebraska local distribution business for the long term, thus eliminating any concern or speculation as to the future of these systems and their customers.

Second, the Source Gas Companies' ownership will bring a solid financial foundation and access to substantial capital resources to bear for the benefit of these local distribution systems and their respective customers through which Source Gas Distribution will have greater opportunities to expand and grow. GEEFS is investing its own capital in these assets and will be looking for ways in which to grow and expand the Source Gas Companies' business over time.

Third, the corporate structure of the Source Gas Companies will be such as to establish an important level of separation, and hence protection. Such separation will bring a valuable and effective measure of "ring fencing" protections to the ongoing utility

operations. By way of example, Source Gas LLC will: 1) maintain separate books and records; 2) maintain separate systems of accounts, financial statements and bank accounts; 3),file separate tax returns; 4) establish a unique composition of board of directors; 5) have no commingling of assets or liabilities with any other person or entity; 6) pay its own liabilities out of its own funds; 7) not hold out its credit as being available to satisfy the obligations of others; 8) not permit liens or other encumbrances of its assets in favor of other entities other than immaterial liens and encumbrances in the ordinary course of business; and (9) any business between Source Gas LLC and an affiliate will be conducted on an arms-length basis. These protections will ensure that the financial strength and integrity of the utility operations will not be adversely impacted by the actions of their parent.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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BEFORE THE PUBLIC SERVICE COMMISSION OF NEBRASKA

IN THE MATTER OF THE JOINT APPLICATION OF KINDER MORGAN, INC., KM RETAIL UTILITIES HOLDCO LLC, SOURCE GAS DISTRIBUTION LLC, SOURCE GAS HOLDINGS LLC AND SOURCE GAS LLC FOR APPROVAL OF (1) THE PROPOSED TRANSFER OF KINDER MORGAN, INC.'S NEBRASKA CERTIFICATE OF CONVENIENCE AND UTILITY ASSETS TO SOURCE GAS DISTRIBUTION LLC; AND (2) THE PROPOSED CHANGE OF CONTROL OF SOURCE GAS DISTRIBUTION LLC FROM KINDER MORGAN, INC. TO SOURCE GAS LLC.	)	**Application No. _____**

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the **Joint Application** in the above-captioned docket was served by hand delivery upon the following on this 29th day of September, 2006:

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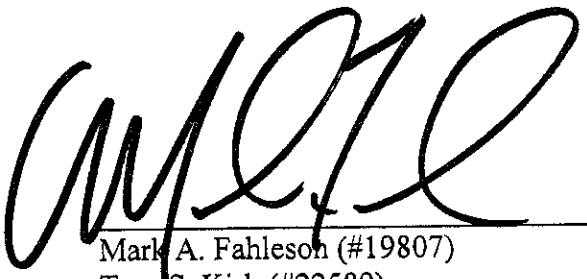

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